2

ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 176 Number 5156 | New York, N. Y., Thursday, October 2, 1952 | Price 40 Cents a Copy

EDITORIAL

As We See It

For a long while past repeated demands for a reduction in Federal outlays have been regularly met with an assertion that very little was possible since most of current expenditures were either for debt interest or for defense. Both these types of outlays were untouchable, so the story went, or at all events were such that very little could be pared from them.

Thoughtful and realistic students of current public questions have never been satisfied with this reasoning, which usually shaved possible reduction in expenditures down to hardly more than relatively trifling proportions. They were dissatisfied with it for two reasons. One was that they knew that more than admitted could be taken from nondefense expenditures if only business-like administration was applied and still more if functions and activities which never should have been undertaken by government (least of all the Federal Government) were dropped as expeditiously as possible. The second basis for dissatisfaction was found in the conviction that substantial savings could be effected in what are known as defense programs if the task was approached with a will, and with understanding of the real needs of the situation, and with good sound business sense in giving effect to such defense programs as were finally decided upon.

But though feeling certain that really important savings could be effected in defense outlays, very few if any of those who demanded general retrenchment by the Federal Government felt themselves qualified to say just how these reductions could be effected.

Continued on page 32

Pension Funds and Their Impact on the Capital Market

By ROGER F. MURRAY*

Vice-President, Bankers Trust Company, N. Y. C.

Mr. Murray discusses rapid growth of Pension Funds and their impact on the capital market. Finds a strong tendency in recent years for trusteed pension funds to rely more heavily on equity securities, with greater fluidity and flexibility thereby being provided to the capital markets.

Pension plans, exclusive of Federal programs such as Railroad Retirement, Old Age and Survivors Insurance, and Federal Civil Service plans, are currently collecting and investing some $3 billion a year. This means, of course, that they have become an important factor in the capital markets. A decade ago, the comparable figure was probably less than $600 million. To appraise the impact of this flow of funds on the capital markets, however, it is necessary to view it not as an aggregate sum but in terms of its three major components, the retirement funds of State and local governments, insured pension plans, and trusteed plans.

Roger F. Murray

It has been reliably estimated that the assets of State and local pension funds will increase by some $800 million this year to a total of almost $7 billion. Historically, these funds were invested largely in State and local securities, but during the last 10 years U. S. Government bonds have been increasingly important. The most recent development has been a growing interest in corporate bonds and a few instances of an inclination to look with favor on common stocks. Public securities, however, still remain the principal outlet for these funds.

Currently, about $1 billion a year is being added to the reserves of life insurance companies under

Continued on page 31

*Remarks of Mr. Murray at a round table discussion at a meeting of the National Industrial Conference Board, New York City, Sept. 17, 1952.

Americans May Hoard Gold Coins

By HERBERT BRATTER

Mr. Bratter reviews developments in the legal status since 1933 of holdings of gold coins, and concludes, despite rulings and official regulations, anyone in the United States may hold, sell and import gold coins of any denomination or mint, in any quantity, with the exception of (1) foreign coins minted after April 5, 1933; and (2) worn coins.

Until recently the writer shared the general belief that gold hoarding in the United States has been illegal since 1933, with the exception of gold in its natural state. Recent inquiry discloses that that belief is erroneous. Americans, even though not coin collectors, may hold gold coins, although they cannot get such coins from the Treasury Department. The holding of gold coins is covered in the Department's gold regulations, the latest revision of which was promulgated in the "Federal Register" of Aug. 29, 1952. Sections 54.20 of the new regulations reads:

Herbert M. Bratter

"*Rare coin.* (a) Gold coin of recognized special value to collectors of rare and unusual coin may be acquired and held, transported within the United States, or imported without the necessity of holding a license therefor. (b) Such coin may be exported only in accordance with the provisions of §54.25. (c) Gold coin of foreign issue made subsequent to April 5, 1933, is presumed not to be of recognized special value to collectors of rare and unusual coin."

Whether you may hold, transport or import gold coin depends on the definition of "rare and unusual." That term is not explained in the regulations. It means what the government itself interprets it to mean. In practice today any genuine gold coin of vintage earlier than April, 1933, provided it is in good condition with the design, date and the like clear, passes the government's test as

Continued on page 32

ABA ISSUE NEXT WEEK—The "Chronicle" of Oct. 9 will include many of the addresses made at the 78th Annual Convention in Atlantic City of the American Bankers Association, along with related news developments at the Convention.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

JACQUES COE

Senior Partner, Jacques Coe & Co., New York City

Bayuk Cigars, Inc.

Anyone who during the past 50 years has studied the behavior of tobacco stocks — both cigar and cigarette companies—and has compared their market action with the overall market trend, is obliged to reach the conclusion that at certain critical periods in the investment cycle tobacco shares are without question the best kind of defensive investment.

Jacques Coe

Rarely if ever do tobacco stocks rise substantially in a bull market. A striking example was the 70% advance in all stocks from 1927 to 1929, while during this same period tobacco stocks advanced only 1%. Again from 1934 to 1937 all stocks advanced about 70% and tobacco stocks declined 4%. Since 1949, the all over market advance again has been someing like 70%, while tobacco stocks *have declined 10%.*

Conversely, when we are in bear markets, not only have tobacco stocks resisted the decline, but at the first favorable breathing space the tobacco group has advanced, going contrary to the down trend of other shares.

Distributors Group, Inc., in a recent study on the relationship of tobacco stocks to the market as a whole, suggests that currently we are at about the same "index relationship of tobacco stocks to the general market" as that which prevailed in October, 1929 and again in April, 1937. From this observation one could draw several conclusions — one being the probability of an end of the current bull market. This would agree with my own thinking.

In looking over the tobacco group for an outstanding situation, Bayuk Cigars was selected for several important reasons. It had gone through a period of great hardship during the last six years and recently has developed strong indications of entering a period of vigorous revival.

In the cigar manufacturing industry, and particularly among the leaders in the field, these companies keep themselves in very strong liquid financial condition, because of the necessity of carrying and curing leaf tobacco which takes from a minimum of one to two years. As a result, the net quick assets of most of these companies substantially are in excess of the market price of the stock.

In Bayuk, for instance, the net quick assets as indicated by its last annual report, were in excess of $17 a share after deducting every kind of debt, both short-term and long-term. However, one has reason to believe that even this figure is understated as additional net quick assets in unconsolidated accounts could bring this figure closer to $20 a share, or approximately twice the current market price of the stock.

Early this year Bayuk, as one of the leading domestic manufacturers of popular priced cigars, acquired the business of the Webster Tobacco Company, thereby increasing its $30 million annual sales to $37 million. In this acquisition, economies running into many hundreds of thousands of dollars are in process of being realized, and should be one of the many factors contributing to a substantial increase in Bayuk's earnings for the remainder of this year, and more so next year.

Bayuk's principal and largest selling brand is "Phillies." However, in taking over the Webster brand, they also acquired the privilege to manufacture and sell "Cinco," which at one time was one of the largest 5c cigar sellers in the United States — also, the manufacture and sale of "Medalist" cigars. These items show promise of adding substantially to the company's overall earning power.

Bayuk now has a "complete line" covering low priced, middle priced, and high priced cigars, all being handled by the same distributing organization.

In 1947, Bayuk earned $2.96 a share. Since then in every subsequent year, the earnings have declined, until last year they earned 74c. Earnings for the first half of 1952 (already published) amount to 29c. This in my opinion is the low level in earnings and the turning point for the company's earnings.

It is the writer's well considered opinion that earnings for the last six months of 1952 stand an excellent chance of being as much as three times those of the first six months, i.e., in the neighborhood of 90c, making earnings for the full year somewhere between $1.10 and $1.20. Earnings for the last quarter alone could be at the annual rate of approximately $2 a share, and an estimate of $2 to $3 a share for 1953 is not out of line.

In 1947, Bayuk paid dividends of $1.75 per annum — thereafter dividends gradually were reduced along with earnings so that the present dividend rate of 60c per annum is in line with last year's earnings. We would expect dividends to be on the upgrade again as soon as the earnings warrant.

Numerous trade factors are contributing toward a better margin of profit. Havana Leaf Tobacco is plentiful and costing about 20% less than the average cost of the last five years — Pennsylvania Leaf Tobacco costs about 10% lower. The OPS ceiling on cigar prices has been lifted and last month Bayuk increased the price on its principal product "Phillies" from $75 a thousand to $77.50. This price increase promptly was followed by most of the other competitive companies, and practically no sales resistance has been encountered because of the advance.

The cigar industry as a whole is running about 7% ahead of last year. Figures published for the first seven months of 1952 show a total increase of 6.63%. However, the July, 1952 output compared with July, 1951, was up 19½%.

This stock, which sold as high as $32 in 1946 and declined to $10 by 1950, has been fluctuating within a one-point price range for the last two years, during which period we imagine many disgusted and discouraged holders have liquidated or taken tax losses. The buying has been largely by people who were willing to accumulate and wait for the inevitable turn in the cigar industry.

I am of the opinion that in addition to a minimum 6% return on the investment at current levels, the purchase of Bayuk Cigars holds excellent promise for a good-sized capital gain during the next year or two—risk on the downside appears negligible. That is why I consider Bayuk Cigars "the security that I like best" in the market at the present time.

EDWARD FRANCIS HAYES

Partner, Glore, Forgan & Co., New York City

Members New York Stock Exchange

North American Refractories Co.

For a number of weeks now preceding the date of this article prices in the stock market have been reflecting adjustments due to the impact of high taxes, increased operating costs and uncertainty as to the future course of business. Adjustments have been uneven between industries and as to companies within a given industry. Assuming that this view briefly summarizes what has been going on let us examine how it would apply to the refractories industry and more particularly the North American Refractories Company.

Edward F. Hayes

The calendar year 1951 was a good year. North American Refractories Company earned $4.65 per share. It paid dividends aggregating 90 cents and ended the year with an asset value per share of over $35 per share. It reduced its funded debt to $700,000 —a nominal figure for a company of its size.

The year 1952 started off auspiciously with favorable net earnings for the first quarter. In the second quarter operations were adversely affected by strikes and threats of strikes in the steel industry. The major steel strike started on or about June 1 and lasted virtually until August 1. This seriously curtailed all operations in the refractories industry.

In the third quarter business picked up substantially in August and September. In September wage contracts were concluded on an industry wide basis resulting in settlements following closely the pattern of the steel industry contracts. Price increases of 5% have been authorized by the OPS effective immediately. This is not an adequate increase but it will help to offset the higher cost of operations.

Bookings for the fourth quarter deliveries are good with prospects of the steel industry continuing at capacity operations. The question of a coal strike has been eliminated and therefore it now appears that the fourth quarter should come through on some thing approaching a normal basis,

Continued on page 25

A Look at the Economy

By SUMNER H. SLICHTER*

Lamont University Professor, Harvard University

Prof. Slichter discusses various phases of the national economy, now operating under "forced draft" of defense production. Sees both deflationary and inflationary influences in effect, and concludes: (1) the capacity of the economy to grow has been accelerated; (2) the money demand for goods is also increasing, thus creating markets for the expanded production; (3) investment opportunities are now developing at more rapid rate than savings; while (4) the policy of fighting recessions by government deficits keeps up consumer demand. Warns, however, problem of a permanent balance of supply and demand has not been solved.

I

For over two years the economy has been operating under a sort of forced draft—producing defense goods on a large and increasing scale and at the same time expanding industrial plant and equipment at a rapid rate and turning out other goods needed for a high level of consumption. The peak of defense spending has not yet been reached, but it will probably be reached by next June or July. It is a good time to take a look at the economy—to ask what has happened since war started in Korea two and a half years ago to the productive capacity of American industry; what has happened to the standard of consumption of the people; what has happened to the volume of investment; what is the balance of inflationary and deflationary influences in the economy; and what is its capacity to grow.

Prof. S. H. Slichter

II

What has been happening to the capacity of the economy to produce? The answer is that this capacity has been growing rapidly. The total output of private industry of all kinds (including agriculture), expressed in constant prices, increased by $42.4 billion, or over 12%, between the first half of 1950 and the first half of 1952. This increase in output is partly attributable to growth of employment in private industry from 52.7 million to 54 million and partly to an advance in output per manhour. The increase in output attributable to the growth of employment is $6.8 billion; that attributable to the advance in output per manhour is over five times as large, or $35.6 billion.

It is important and, indeed, surprising to observe that the rise in output attributable to greater productivity per manhour is one-fourth greater than the increase in defense expenditures (expressed in dollars of constant purchasing power) between the first half of 1950 and the first half of 1952. In other words, the gain in industrial efficiency has more than paid for all of the goods going into defense. The annual rate of increase in output per manhour in private industry during the last two years seems to have been about 5%. This is about double the average rate of increase that has been achieved in other recent years. These figures are so startling that one cannot avoid asking whether satisfactory measurement of productivity has been prevented either (1) by drops in the quality of many goods or (2) by changes in the kinds of goods produced, particularly by the large increase in the output of defense goods. The rapid rise in the efficiency with which defense goods are made as volume goes up may create the illusion that industry as a whole is gaining in efficiency far more rapidly than is really true. Changes in the kinds of goods produced during the Second World War made it impossible satisfactorily to measure changes in productivity during that period.

Whatever doubts one may have about the precise amount of the growth in productivity, it seems clear that the growth has been rapid—more rapid than any one would have dared predict. The explanation is three-fold. In the first place, industry has been able to an increasing extent to take advantage of the enormous amount of new plant and equipment installed during the last six years. About two-fifths of the fixed capital of manufacturing enterprises and 30% of the fixed capital of nonmanufacturing concerns is estimated by the Department of Commerce to have been added in the six-year period 1946 to 1951, inclusive. In the second place, industry has been able to an increasing extent to take advantage of the enormous increase in technological research in industry, in government, and in the universities during the last 20 years. A rough indication of the enormous research boom which the country has been experiencing is the three- fold increase in the number of scientists since 1929. In the third place, productivity has been increased by the rapid improvement in the art of management. During the last 20 years managements have had to wrestle with enormously tough and difficult problems. First, there was the great depression itself; then there was the rapid rise of powerful and immature unions; then there was the war with a large and sudden increase in tax rates, with acute shortages of men and materials, and with the sudden necessity of having to learn quickly how to

Continued on page 22

*An address by Prof. Slichter before the Mortgage Bankers Association of America, Chicago, Ill., Sept. 29, 1952.

INDEX

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers

25 Park Place, New York 7, N. Y

REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher

WILLIAM DANA SEIBERT, President

Thursday, October 2, 1952

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue—market quotation records, corporation news, bank clearings, state and city news, etc.)

Other Offices: 135 South La Salle St., Chicago 3, Ill. (Telephone: STate 2-0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $45.00 per year; in Dominion of Canada, $48.00 per year. Other Countries, $52.00 per year.

Other Publications

Bank and Quotation Record — Monthly, $30.00 per year. (Foreign postage extra.)

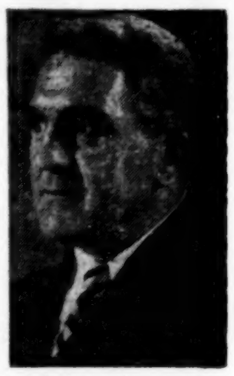
Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Industrial Applications Of Atomic Energy

By ALFONSO TAMMARO*
Manager, Chicago Operations Office,
United States Atomic Energy Commission

Atomic Energy Commission official describes nuclear ship propulsion program now under way, comprising a nuclear operated submarine and nuclear propelled aircraft carrier. Discusses also experiments in central station power generation with nuclear reactors, which has already produced electricity. Say problem now is to generate electrical power economically by atomic means. Lists as major factors in feasibility of nuclear power: (1) lowering of its cost by disposing of nuclear fuels, such as plutonium, to government; (2) the successful development of new processes to lower production costs, and (3) the convenient use of nuclear fuel for power plants remote from other fuel sources.

Having already attempted to point out some of the reasons for and the magnitude of the research and development effort, and monetary expenditures necessary in the atomic energy business. I shall now take up some of the many accomplishments that have been made in the past directed toward the industrial applications of atomic energy. One of the important potential uses is the production of power with a reactor heat source.



Alfonso Tammaro

Well underway at this time is a large program whose objective is to utilize this heat source in power plants for ship propulsion. The power requirements of ships and of naval vessels, in particular, are high. A large carrier, for example, may well have a propulsion plant capable of producing approximately 140,000 kw. So the progress made in this program can be expected to contribute greatly to the technology of power producing reactors in general.

The nuclear ship propulsion program, which is being carried forward jointly by the Navy and the Atomic Energy Commission, consists of the naval submarine program and the naval large ship reactor program.

The naval submarine program consists of two distinct efforts, each of which has as its goal an operating nuclear powered submarine. The first will be powered by the Submarine Thermal Reactor (STR), which is being developed by the Westinghouse Electric Corporation and the Argonne National Laboratory. The reactor will operate on thermal neutrons and the heat transfer medium will be water. The second submarine program, the Submarine Intermediate Reactor (SIR) is being developed by the General Electric Company at the Knolls Atomic Power Laboratory. This reactor will operate on intermediate energy neutrons and will use liquid metal as the heat transfer agent.

The engineering approach to the problem has been the same in each case. A prototype power plant, identical in most respects with the one which will be installed on the submarine, is being built on land in order to iron out the "bugs." Using the experience gained with the land-based models, other plants will be built for the submarines themselves. The STR land-based plant is being constructed at the National Reactor Testing Station near Arco, Idaho. The land-based plant for the SIR is being constructed at West Milton, New York, about 18 miles north of Schenectady.

The keel of the USS Nautilus, into which the STR will be installed, was laid by President Truman on June 14, 1952. The land-based prototype of this power plant is scheduled to operate at Arco soon. The SIR will also be installed in an operating submarine.

The application of nuclear power to a submarine will greatly improve its performance characteristics. No longer being dependent on oxygen from the atmosphere, it will be capable of operating submerged for extended periods of time. It will be able to travel at over 20 knots for thousands of miles before refueling is necessary.

The advantages of nuclear power can also be applied to large vessels such as aircraft carriers. For example, the bringing in of large quantities of air to the boiler and the discharge of hot stack gases presents a complex problem as in the new flush-deck carriers of the FORRESTAL class. A nuclear power plant would eliminate both. Furthermore, the space normally occupied by large quantities of fuel oil could be devoted to making the ship a more effective weapon. A program leading to the eventual application of nuclear power to such vessels was announced by the Atomic Energy Commission on Aug. 1 of this year.

A Breeder Reactor

Perhaps of more interest to landlocked engineers is the Experimental Breeder Reactor which has been in operation since August, 1951. This reactor is farther advanced than any of the other power reactors, and has already demonstrated the production of electrical power. Now, inasmuch as some of the details of its construction and production have recently been declassified, I would like to discuss some of the salient points which I feel will be of interest to you. At this point I would like to mention the fact that Dr. W. H. Zinn, Director of the Argonne National Laboratory, has directed the effort on the Experimental Breeder and he has prepared a very fine article on the subject entitled "An Elementary Review of the Basic Problem in Central Station Power Generation with Nuclear Reactors." It will provide you with a far more comprehensive discussion of its details and appeared in "Nucleonics" on Sept. 11. I recommend this article to you.

The Experimental Breeding Reactor, called EBR for short, was designed, constructed, and is being operated by the Argonne National Laboratory. Although it generates significant quantities of electricity, it was not built primarily for that purpose. This reactor is an experimental model which was built primarily to demonstrate and study the possibility of breeding. Let me take a minute to explain the term breeding and why this process is so important. Unfortunately, all the atoms of uranium as they occur in nature are not capable of undergoing the fission process to an appreciable extent. Only the isotope U235 does this and this isotope is contained in uranium to the small extent of 1 part in 140. The other isotope, U238, however, can be bombarded with neutrons and transmuted to the element plutonium. Plutonium is a fissionable material and can be used as a fuel. This is the process that takes place in the Hanford production reactors. Recent advances in Reactor Technology indicate that it is actually possible to produce more fuel than is burned and at the same time obtain useful energy. This process of producing more fuel than is burned is known as breeding.

Visualize if you can a conventional power plant that not only burns coal to ashes, but also creates fuel in the process. Further, **more of this fuel so created, would be produced,** than the coal burned. This is, in effect, what is possible in a breeding reactor, and the EBR is now being studied to determine how much fuel can be produced in excess of the quantity burned. In addition to this phenomenon, this reactor is generating electrical power.

Operation: The EBR began operation in August, 1951. On Dec. 20, 1951, the world's first production of significant amounts of electricity from a nuclear reactor heat source was achieved when four bulbs were lighted. The following day, the external electrical supply to the building was disconnected and the entire power load was carried by the reactor-boiler-turbine-generator system. This included all electrical lighting, electrical power requirements for all auxiliary equipment such as pumps, fans, etc., and the power requirements for the machine shop.

Unclassified Data: Inasmuch as some interesting information has been but recently declassified, it is now possible to provide some details of the construction and operation of this reactor. The heat energy is removed from the machine by liquid sodium potassium alloy leaving the system at a temperature of 350 degrees C or 625 degrees F. Super-heated steam of 400 psi pressure is generated. The power load required to operate the reactor is approximately 85 kilowatts. The generator is something over 100 kilowatts size and excess electrical power not required by the reactor is used for building service or dissipated to the atmosphere by electrical heaters. The power density is 250 kilowatts per liter and the neutron flux is approximately 10^{14} neutrons per square centimeter per second. The reactor core, that is, the section of the machine containing the fuel, is approximately the size of a regulation football. Electromagnetic pumps and flow meters are used in the liquid metal circuits.

Description of the EBR System

The fact that the active core of the reactor is as small as a regulation football may tend to make the mechanics and construction of a nuclear machine appear to be very simple. Let us start at the heart of the machine and work outward to get a picture of some of the many other required components. Surrounding this small central core is a breeding blanket which consists of natural uranium. It is in this blanket where the plutonium is produced by absorption of neutrons by the U238 atoms. The material in this blanket, like the fuel, is suspended in the sodium potassium coolant in a cylindrical tank. Since the EBR operates on high energy neutrons, no moderating material is contained in the tank to decrease the energy.

Surrounding this tank is a reflector. This is a material that reflects neutrons back into the reactor that would otherwise escape and be lost. Surrounding the core, blanket, and reflector is a shield which consists of a thick section of lead and concrete to absorb the radiation given off in the fission process.

Also contained in the core and blanket are unique mechanical and nuclear devices for controlling the chain reaction so that a reactor runaway cannot occur and so excessive temperatures are not permitted—that is, temperatures that would cause the fuel and fertile material and the tank to melt.

Sodium-potassium alloy was chosen as the coolant because of its low melting point, high boiling point, high specific heat, nonmoderating properties, and because of its corrosive nature is modest compared to many other liquid metals. A low melting point is required to prevent freezing of the coolant in the system when the reactor is shut down. A high boiling point is required to eliminate the need of a pressurized system. The high specific heat is required because of the great quantities of heat generated in a small volume that must be removed as rapidly as possible. A material that does not possess moderating properties is essential since this type of reactor operates most efficiently in the very fast neutron range. The heat available from nuclear fuel is limited only by the temperatures that the fuel and structural material can withstand and the rate at which it can be removed from the system.

The principal disadvantage of sodium-potassium alloy is its violent reaction when brought in contact with water or air. It is this property that calls for extreme care and engineering design in the coolant system.

The coolant flows through the reactor tank by gravity. It is then pumped through a special primary heat exchanger and back up to the storage tank above the reactor by special electromagnetic pumps designed at Argonne.

In flowing through the reactor, the coolant becomes radioactive. This means that the entire primary coolant system must be shielded. A secondary sodium-potassium system removes the heat from this shielded heat exchanger and carries it out to a secondary heat exchanger. The coolant in this system, then, is not radioactive since it does not flow through the reactor. Steam is produced in the secondary heat exchanger and flows through the 250 kilowatt turbo-generator system to produce electricity.

Power Generation in the EBR

The power generation phase is incidental but is being carried out to secure experimental information on the handling of liquid metals at high temperatures under radioactive conditions and on the extraction of heat from a reactor in a useful manner. The system was not designed to generate large amounts of electrical power but rather to provide a useful tool for carrying out such experimental studies.

I should like to emphasize that no comparison should be made of the cost of producing electrical power from this reactor with power from conventional sources. Cost of producing power was not an essential factor in the power phase and the experiment is in no way intended to establish the feasibility of producing electrical power economically from a nuclear source. The technical information gained, however, will be useful in the design of future reactors aimed at generating electricity at a competitive cost.

General Nuclear Power Consideration

So you see, electrical power can be and has already been generated by atomic means. The problem now is to do it economically and, as a part of the program to study ways of doing this economically, four teams of industrial organizations have been making economics and engineering studies of nuclear power production for the past year. This has been done at their own expense. The organizations participating in this program are Commonwealth Edison, Public Service of Northern Illinois; Monsanto Chemical, Union Electric; Pacific Gas and Electric,

Continued on page 24

*An address by Mr. Tammaro at a meeting of the American Society of Mechanical Engineers, Chicago, Ill., Sept. 8, 1952.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Stability marked the course of over-all industrial production for the nation the past week as output maintained its high level of the preceding week and many plants endeavored to reduce order backlogs accumulated during the last few months.

Aggregate output continued to remain slightly higher than the level of a year ago, but it was still about 10% short of the record peak reached during World War II. With respect to employment, claims for unemployment insurance benefits continued above the number recorded one year ago.

Since the end of the strike steelmaking operations have risen steadily and for the past week output reached 104% of capacity. This was equivalent to approximately 2,160,000 net tons of steel for ingots and castings.

The end of price controls may come sooner than most people had expected, states "The Iron Age," national metalworking weekly, in its current summary of the steel trade. Weight of its own paperwork is putting a staggering burden on budget-trimmed Office of Price Stabilization. At the same time its profit-squeeze policy toward manufacturers is bringing an avalanche of complaints. Lack of support from public builds growing suspicion it may be politically expedient to jettison the whole program.

Crux of the industry problem rises from OPS's pass-through allowance for higher steel costs, but not for higher labor, freight and other material costs. In most manufacturing plants the latter increases amount to much more than steel price rises. This hits manufacturers where it hurts most—profits—declares this trade journal.

Continuing, it states, labor costs of many steel consumers have or will advance in line with labor cost advances of steel producers. A number of companies, under contract with the same union as steel firms, have not only been forced to grant the same wage increases, but also have had to give workers one more month retroactivity. Freight rates have advanced and cost of materials other than steel is rising. Of course higher steel costs averaging $5.20 per ton may be passed on in higher prices. But in many manufactured articles this increase is slight. Of far greater importance to manufacturers are cost increases other than steel which cannot be passed on.

Preliminary work toward applying the earnings standard is underway in a number of steel consuming industries including fasteners, forging, internal combustion engines, metal laths and others, this trade authority points out.

The steel supply outlook for consumers is rapidly turning brighter, it reports. True, most steel items are still hard to get in quantities large enough to support high-level manufacturing, and at the same time restore depleted inventories. But steel production which has been gaining steadily from the disastrous strike of June and July, is now fully recovered. For the second week in a row the industry hopes it will be able to operate at 104% of rated capacity.

Barring unforeseen trouble, it looks as if the industry will be able to set an all-time record during October for steel produced in one month. Previous monthly record was hung up last March when steel companies averaged 102.2% of rated capacity, before labor trouble started affecting operations. March production was a little over 9.4 million net tons of raw steel; by holding its present rate, the industry could turn out close of 9.6 million tons in October, concludes "The Iron Age."

The auto makers last week wheeled out their three millionth car of the year, but the 1952 total still was more than 1,200,000 cars below the comparable period a year ago, according to "Ward's Automotive Reports."

Auto output last week totaled about 106,,499, compared with 109,196 in the previous week and 79,966 in the like 1951 week.

"Ward's" said the week's decline stemmed from plant reconversions at Chrysler Corp. The rest of the industry operated at high rates for the year, and the estimate of September production was pushed to 442,000 cars and 112,000 trucks. The combined total of 554,000 vehicles would be the highest monthly output since June, 1951.

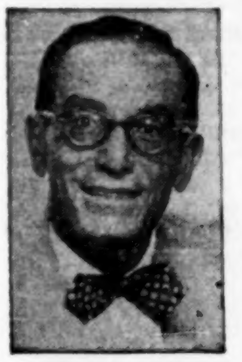
This agency estimated, however, that only 839,000 cars will be produced in the third quarter due to the July-August steel strike.

Continued on page 40

Bankers' Parley Pervaded By International Factors

By A. WILFRED MAY

ATLANTIC CITY, New Jersey —"We are all groping for a stable footing in this violently swaying world. Mr. Churchill, that arch-coiner of phrases, recently said that civilization seems to be dancing upon a trap door." These words, quoted by Comptroller of the Currency Preston Delano in his talk before the American Bankers Association here, well keynote the tenor of the thinking, the deliberations, and the forecasting of the bankers and government officials in their formal talks, press conferences, and lobby and boardwalk brain-trusting. They reflect the fact that surpassing all other elements — including even our Election outcome — bearing on present and future banking and business problems, will be the temperature of the Cold War with its government spending implications.



A. Wilfred May

This pervasiveness of the international political course is typically and auspiciously evidenced in the thinking of the Association's outgoing President, Mr. C. Francis Cocke, head of the First National Exchange Bank of Roanoke, Va. At an informal press interview with that representative banker here Sunday, discussing questions ranging all the way from the course of loans to business—both small and large—to future bank earnings, the future of interest rates to the business outlook; the course of defense spending inevitably and recurrently emerged as the key influence, and as the immovable block to future planning.

Likewise throughout a lengthy press conference with Secretary of the Treasury Snyder the following day, did the amount and course of defense outlays inevitably emerge as *the* X-factor. This obviously is the decisive element controlling the duration of deficit financing (although receipts cannot be assumed as continuing constant in the face of expenditure curtailment). The Secretary's assured expectation that it will be at least two years until the government's receipts catch up with its outlays is, of course, importantly premised on "war-temperature" assumptions. As Mr. Snyder explained, in making his budget estimates the President must project 18 months in advance, and hence take into account defense outlays for that lengthy period—whereas, in the Secretary's opinion, the maximum foreseeable period is 12 months.

The Determinant of Taxation

Taxation, as to kind as well as quantity, will likewise be largely governed by the temperature of the Cold War. For example, the fate of the Excess Profits Tax at its prospective expiration date (whose abuses are now acknowledged and its extinction urged, by Mr. Snyder along with Secretary Sawyer), because of the popular atmosphere surrounding its faulty nomenclature, will certainly depend largely on the war state when the new Congress deliberates its continuation after the turn of the year. And the possibility of relief from other abusive taxes, as the double taxation imposed on corporate income to which impost the Treasury Secretary is opposed, would, because of the public's political psychology, necessarily require the absence of national emergency as a prerequisite.

Similarly, in discussing with Mr. Snyder the possibility of getting the government debt out of the banking system, it of course did not take long to run into a stone wall in the absence of foreknowledge of defense activity. Likewise, appraisal of the daring proposals of Joseph Earl Perry, New England banker, for restoring the integrity of our fiscal system by entirely extinguishing the national debt via 25-year amortization instalments, or any moderated version of such plan, must depend on defense demands on the budget.

Even Senator Willis Robertson, of Virginia, midst his lengthy exhortations to follow the honest-money precepts of Jefferson, Wilson, and Carter Glass, paused to recognize the importance of the impact of war factors on the Treasury's debt-managing performance.

* * *

The foregoing account of the reactions of the banking community does not by any means imply the existence of its justification of the use of the armament and war needs as an alibi for inflation and unsound practices, as governmental extravagance. On the contrary, the dire need was quite unanimously expressed by the speakers and others of the 6,500 in attendance, for the government as well as bank management to take the difficult economic steps to ameliorate the effects of armament needs. Our intention is merely to show in another major economic area the all-inclusive extent to which the course of our defense program permeates conduct and calculation.

FULL TEXTS of the principal addresses made during the course of the ABA Convention, along with other pertinent material, will appear in the "Chronicle's" Convention Issue of Oct. 9.

COMING EVENTS

In Investment Field

Oct. 2, 1952 (New Jersey)
Bond Club of New Jersey member-guest Dutch treat Golf Day and Beef Steak Dinner at the Essex County Country Club, West Orange, N. J.

Oct. 5-7, 1952 (San Francisco, Calif.)
Association of Stock Exchange Firms Board of Governors Fall meeting at the Mark Hopkins Hotel.

Oct. 8-10, 1952 (Los Angeles, Calif.)
Association of Stock Exchange Firms Board of Governors Fall meeting at the Ambassador Hotel.

Oct. 20-23, 1952 (Miami, Fla.)
National Security Traders Association Convention at the Roney Plaza Hotel.

Oct. 23-24, 1952 (Pinehurst, N. C.)
Securities Dealers of the Carolinas — North Carolina Municipal Council — South Carolina Municipal Committee joint meeting at Mid-Pines Inn.

Oct. 24-27, 1952 (Havana, Cuba)
National Security Traders Association Convention tour.

Oct. 31, 1952-Nov. 2, 1952 (Hot Springs, Va.)
Fall Meeting of Southeastern Group of the Investment Bankers Association of America at The Homestead.

Nov. 30-Dec. 5, 1952 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Black Heads Dept. of Winslow, Douglas Co.

Winslow, Douglas & McEvoy, 120 Broadway, New York City, members of the New York Stock and Curb Exchanges, announce the appointment of Edward L. Black as manager of the firm's municipal bond department. Mr. Black was formerly manager of the municipal department of the New York office of R. L. Day & Co. and prior thereto was with Merrill Lynch, Pierce, Fenner & Beane.

Point of Low Return

By IRA U. COBLEIGH

Author of "Expanding Your Income"

Recent decisions of Federal Power Commission on pipe line charges rate comment; and some aspects of their effect on transmission shares are here presented.

Here we have a perfectly beautiful industry—the gas pipeline—going its merry way bringing the economy and efficiency of natural gas to 90% of our population; providing mortgage bond investments for institutions, good preferreds for the income of many, and growth equities for individuals and investment trusts, when all of a sudden the rules appear to be changed right smack in the middle of the game. Big rule changes in fact, in a very big game.

Ira U. Cobleigh

Let's go back just a bit. On June 11, 1952 the Federal Power Commission allowed a rate increase to Northern Natural Gas to yield $5,100,000—less than half of what the company had asked for, roughly $12,200,000.

Until this baffling decision emanated from FPC, the properties which actually produced the gas, owned by pipeline were treated, for rate purposes, just the same as transmission facilities and the basic principle and precedent had been to allow rates creating an overall return of from 6% to as high as 6½%, on net property. In the Northern case, the Commission decided that 5½% was a sufficient rate; and arrived at this conclusion by a novel course of reasoning.

Here's the pitch: $78 million of funded debt averaged (including finance cost) according to their slide rule, 2.55%. Then the Commission peered into the market place and noted that seven reasonably similar pipeline common stocks had sold, in the preceding five-year period, at an average earnings-price ratio of 7½%. From that, FPC worked out a theory that a 5½% over-all return to Northern would give an 8.75% return on Northern's common. The actual equation, if you care for that sort of thing, was 56% debt at 2.55%, 44% equity at 8.75% (really 9.25% with ½% off for finance cost) averaged into 5½% over-all. Practically done with mathematical mirrors.

It blithely ignored such things as the fact that Northern Natural owns and supplies 25% of its gas requirements; and that this cozy calculation allowed Northern for its own gas, much less than the 9c per Mcf. authorized as the fair and reasonable minimum value for gas at the well head, by the Kansas Commission in February 1951; and took no note of the fact that the price then actually being paid by other pipelines in the Hugoton Field (Kansas) was 11c! In other words, even though management had been farsighted enough to assure itself of a partial supply of its gas for transmission needs, it was to be penalized.

Northern Natural Gas Co., however, must have some hopes of improving its rate status, even in spite of this ruling, as it has just filed a request for building $70 million in additional pipeline facilities. This would, on completion, jack up its daily capacity to about 1.1 million cubic feet principally to utility companies for resale.

A slightly different approach to the rate problem was offered by the FPC when, on its own initiative, it reduced the wholesale rates of Colorado Interstate Gas by $3,000,000 on July 31 of this year. While the company and the Commission both used a rate base of roughly $57 million, the decision whittled down the return to Colorado from 6½% to 5¾%. FPC sliced $670,000 off allowable operating expenses, including estimated wage and salary increases (to become effective at a later date) of $343,000; and it rubbed out an item of projected pension and welfare outlay. The company listed in "costs of service" $2,307,000 Federal taxes of which the Commission allowed, I believe, but $186,000. Then the decision went on to figure how much lower the Federal income tax would be, with the company grossing $3 million less. Depletion was reduced $141,000. The FPC seemed bent on arriving at low service cost, regardless of what impact that determination might have on security holders, or the expansion of service to eager potential users.

Another straw in the regulatory wind is found in the Mississippi River Fuel decision of Aug. 4, when the Commission denied a company request for increases totaling $3,100,000 annually. This would have brought about a 6½% return on valuation. Here the same "cost of money" gimmick was invoked as a guide. The FPC argued that without any increase, Mississippi Fuel was earning 9% on its common, and 6% over-all—so no dice! The weaving of the argument in this instance was a kicking around of the questions, when is peak load, and who takes it. The company said that 89% of its output on coldest days went to utilities for resale. The FPC, however, selected a peak load period when only 56% went to utility outlets and the balance to industrial or "interruptible customers." Hitherto the Commission had stressed for purposes of rate making, the basic costs of a line to serve steady customers with fuel, since it was the existence of those customers that alone would justify the building of the pipeline in the first place. Restricting the basic rates simply because intermittent load waxes profitable, is a departure from the Commission's own tradition.

Just one more item. A year ago, Transcontinental Gas Pipe Line asked for higher rates — $13.6 million in annual total. After a maximum of deliberation, the FPC quite recently denied the application, stating that the company had failed to demonstrate that the increase was reasonable and just. I quote from the opinion: "What evidence there is in that regard, was developed on cross examination relative to earnings-price ratios which indicate that a 5½% or 6% rate of return will permit Transcontinental to service its outstanding debt and preferred stock and allow on its common equity, a return in excess of that required by investors in the common stocks of Transcontinental and other natural gas companies comparable to Transcontinental." Transcontinental is heavily leveraged with a financial program calling for about 75% in bonds, 10% in preferred and 15% in common. A 6% return on its base of $249 million would equal about $1.80 a share on the common.

These, in merest outline form, are some of the rulings that have, in recent weeks, disquieted investors, depressed pipeline equities, and raised questions about the continued expansion of the gas transmission industry, which today accounts for over $3½ billion in invested assets.

Assuming that the FPC persists in its application of this "cost of money" technique to its leisurely rate determinations, what conclusions can we draw? First, the horizon of growth in gas pipeline commons is loused up. Earnings on common equity, if they exceed a certain level, will be apparently drained off in the form of lower rates. Second, companies provident enough to obtain gas production facilities of their own, are penalized; they'd make far more money selling to outsiders than using the gas themselves. Third, this 5½% return may suggest divestment of gas producing units, as has already been done in the case of Panhandle (Hugoton Production) and Southern Natural Gas (Southern Production). Fourth, a company with all common stock would theoretically be granted the highest rates. Fifth, if present FPC reasoning is followed, the consumer stands to suffer twice; once, because the Commission discourages the production and delivery by pipelines of their own (and lower cost) gas, and again because when security markets decline, gas rates will go up. This is surely a baffling result for action presumably taken in the public interest.

Finally, will this new rate theory stick? I don't think so. Commissioners may change, or they may change their minds. There are always the courts for remedy, and the outcome on Nov. 4 might give our economic climate a more orthodox tinge. We've spent many years and much brain power building up a body of accounting theory, principles, precedents, and law in rate making, for railroads, electric, gas and telephone utilities geared generally around a 6% return on fair valuations. On the basis of this, does not this excursion of the Commission into the 5½% zone seem somewhat capricious and arbitrary?

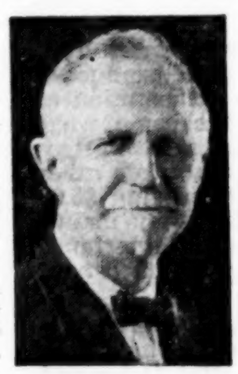
On the theory, however, that the soup is never eaten as hot as it's cooked, it does not seem logical to consider liquidation of inter-state pipeline securities simply because they've suffered a regulatory gas attack. Some companies are less affected than others, particularly those with big industrial (i.e. non-utility) sales, and those primarily or entirely intra-state. There's a big and increasing consumer demand for natural gas. Oil companies here and in Canada are pushing up vast new billions of cubic feet each year. These billions reach us via pipelines; and we simply won't get the new lines we need unless the investor return is made and kept attractive. The Commission has appeared to offer a point of low return. But it may not be the sticking point

World War III

By ROGER W. BABSON

Asserting fear exists that Russia, through the Chinese, may issue an ultimatum for U. S. to get out of Korea, Mr. Babson says this could cause severe break in stock market. Holds World War III would mean higher taxation and more inflation, but stocks could, after recovery, "go to greater heights than ever."

Two years ago almost everyone was worried about World War III. Newspapers told of the defense plans being made by the government; magazines printed gory descriptions of the probable destruction of American cities; while families were buying small "hide-away" farms or building bomb-proof cellars. Today we hear very little along these lines, except by those families who have boys in Korea. General sentiment now is that World War III will not come for 10 or 20 years — "so why worry!"



Roger W. Babson

What the Experts Tell Me

Strange to say, the "City of Brotherly Love" is one of the chief centers for producing war materials. This gives me an opportunity to get some inside information. Experts there tell me that the prospects for World War III during the next year or two are greater than ever. They claim that Russia is now putting us to sleep and may jump upon us at any time. It is hard to believe this because it seems to me that Russia would have attacked us during the past six months if she wanted to start World War III. Experts, however, insist that Russia is waiting only to build up a greater supply of atomic bombs and supersonic airplanes; they are especially disturbed by the Russian-Chinese Conference now being held in Moscow.

Obviously, the present Korean situation cannot last indefinitely; one side or the other must quit. If we should quit, this would certainly result in bringing on more trouble somewhere else; while if the Chinese should quit, it could result in Russia losing all her Asiatic gains. Therefore, the fear is that Russia, through the Chinese, may issue an ultimatum to the United States giving us a certain time limit in which to get out of Korea — "or else." This could cause a severe break in the stock market and in business. This ultimatum could come directly after elections in November, especially if Eisenhower should be elected.

What World War III Would Mean

Of course, Russia may suddenly adopt the "Pearl Harbor" program by dropping atomic bombs on one or more of our large cities without a prior ultimatum. Although we are building a marvelous radar system, yet experts tell me that some Russian planes could get through during the first 24 hours and kill millions of American people. In either case, Congress would immediately be called into session, and very stringent controls would be applied to all kinds of business. Profits would largely be taken away by 90% taxation; and in 30 days we would be living in a new world.

World War III would result in much further deflation of the dollar, its value perhaps falling to 25 cents. Hence, some people believe that the stock market—after the first big drop—would recover and go to greater heights than ever. So long as our country remains immune from damage, this might be true; but if some of our big cities were bombed and a few million Americans—including women and children—were killed, the stock exchanges would be closed and panic would reign. Let no reader fool himself that in the next World War he will have an opportunity to "make money."

What Shall We Do?

The above does not mean we should get panicky today. It, nevertheless, does mean that we should not forget the possibility of World War III coming at any time. Even an ultimatum by Russia would give our markets a great scare, even though Russia might try this only as a bluff. If Russia should decide to strike without notice, as did the Japanese, then World War III will have started in all its fury.

In view of the above, I appeal to readers to take time to figure out what they would be obliged to do and how they would be affected if World War III should soon come—no gasoline, standing lines for foods and all our boys gone to war. Think back to what happened to you during World War II, and multiply those inconveniences by several times. If you now live in a large vulnerable city, get a small place in the country before it is too late.

The Savings Banks Approach To Equity Investment

By ALFRED C. MIDDLEBROOK*
Chairman, Committee on Savings Bank Investments, Savings Banks Association of State of New York
Vice-President, East River Savings Bank, New York City

Mr. Middlebrook, stressing equities as merely a marginal factor in savings bank investment, reveals background of study of equity investment by New York savings banks. Says main objective of equity investment is higher income yield, and places emphasis on: (1) appropriate limitations on total amount of such investments; (2) wise selection, and (3) prudent administration. Holds considerations should be given to organization of a mutual investment company, owned and operated by savings banks. Favors preferred stocks.

During the last two years pressure of unprecedented events has compelled the savings banks to consider an extension of their traditional and conventional area of securities investment to include equity securities other than stocks of commercial banks — the latter, particularly in New England, having long enjoyed the justified distinction of restricted eligibility for savings banks.


A. C. Middlebrook

It is with full recognition of the investment experience of the savings bankers of Maine that I shall address you today on a subject which during the last two years has attracted considerable interest in New York savings banks circles and which, according to present indications, promises to be of comparable interest in various other states.

The significant record of the savings banks of Maine and of the other New England states in the market for commercial bank stocks creates a strong presumption of a basic interest in the subject of equity securities as institutional investments as well as a clear understanding of the fundamental problems involved in relating equity investments to the special requirements of savings banks. I am confident that many savings bankers of this state have given due and careful thought to this subject and that they have reached sound conclusions.

Frankly, the concept of equity investments for savings banks excepting, of course, bank stocks which occupy a characteristic and distinctive position in the field of securities has been foreign to the traditional investment thinking in our business. It has been of dubious validity and soundness to many who embrace the view that savings banks as institutions holding what amount to demand deposits should be empowered to invest even on a limited basis in junior equity securities with their admitted exposure to risk, wide market fluctuations and major variations in income production as compared with sound debt securities.

Actually, it should be pointed out, in no state in which savings banks are authorized by statute to hold equities does this power exceed the limit of capital funds; in those states which account for a large preponderance of equity holdings of all savings banks the power amounts to only a fraction of capital funds. Furthermore, it is my opinion that in those states in which savings banks do not now hold equity securities but in which there is no statutory prohibition against such investments, future holdings, if any, are not likely to exceed the amount of capital funds.

Equities—A Marginal Factor in Savings Bank Investment

To keep the discussion of equities as savings bank investments in proper focus and perspective it must be realized that as long as savings banks continue to be operated according to sound banking principles holdings of equity securities presumably will never occupy more than a marginal position.

While I firmly believe that subject to appropriate restrictions, proper diversification and prudent management stocks can provide a constructive element in an investment program for a savings bank, it is not my desire to be recorded as sustaining the contention that equity securities in and of themselves provide in substantial measure a solution for the pressing investment problems which circumstances and, to some extent their own actions, have brought upon the savings banks.

I have referred to the probable marginal aspect of equity securities in the investment operations of the savings banks. It should be duly emphasized, however, that marginal factors can be, and frequently are, of controlling importance and that an arbitrary denial to this subject of the careful and disinterested consideration that it deserves might well prove a distinct and imprudent disservice to savings banking.

Background of Equity Study by New York Savings Banks

A cursory review of the record will reveal that in April of 1950 when the movement to secure limited equity investment powers for the savings banks of New York State was inaugurated unusually widespreads prevailed between yields of common stocks and corporate bonds of investment grades. In fact these yield disparities involving common stocks of outstanding and widely recognized investment merit were the major factor in influencing the savings banks to study the feasibility of appropriate equity investment powers.

Referring to the contemporary Moody's averages, the yield of two hundred stocks at 6.16% was more than twice the composite corporate bond yield at 2.84%. The ratio would be even more impressively in favor of stocks were the composite bond yield confined to those issues in the first three rating classifications. These indications of market yield spreads were symptomatic of underlying conditions in the capital markets indicating a shortage of high grade debt securities in relation to institutional investment requirements.

At that time some considerable diminution in the rate of corporate capital formation and a concomitant reduction in the emission of new corporate bonds seemed a reasonable expectation. Also the rate of building activity during the preceding several years had been such as to bring within the range of probability a significant reduction together with a corresponding shinkage in the availability of new residential mortgage loans of acceptable quality. Furthermore, a progressive institutionalization of savings seemed to project a stable to rising accumulation of investment funds on the part of insurance companies, pension funds, savings banks and other groups of institutional investors.

It was against this background that the savings banks of New York State embarked upon a study of equity securities. The objective of this study was a determination as to whether or not on some reasonably and appropriately restricted basis equity securities could be utilized to augment the earning power of savings banks and thus to enhance their capacity to operate effectively as organizations of public service in an increasingly competitive environment.

The New York Association's efforts through its investment committee to study and report on this subject resulted in unanimous approval at the annual convention in 1950 of a recommendation that the Banking Law be amended to authorize limited investments in equity securities and legislation embodying this recommendation with certain significant modifications was enacted in 1952.

Exclusion of Bank Stocks

It must have been surprising to those who by long experience and practice have considered commercial bank stocks as a sound and desirable investment for savings banks to note that in the 1952 amendment to the Banking Law of New York State authorizing equity investments by savings banks bank stocks were specifically excluded. This exclusion should not be considered as indicative of a legislative disapproval of such securities or an implied position of the legislators with respect to the propriety or desirability of bank stocks as savings bank investments. Nor should it be construed to imply objection on the part of the Superintendent of Banks whose position in favor of such powers, subject to appropriate restrictions, had been clearly indicated.

While the original bill included a provision for bank stocks this provision was deleted as a result of strong opposition on the part of certain upstate commercial bankers which would have jeopardized passage of the bill.

I hope that in the near future —probably at the Legislative Session of 1953 — commercial bank stocks subject to appropriate restrictions will be brought within the area of eligibility for savings bank investment, and it is my opinion that such a development would be to the mutual advantage of both the savings banks and the commercial institutions.

Developments Affecting Relative Attractiveness of Equities

During the period since the inauguration of the equity program of the New York State savings banks there have been several developments which have tended to narrow the yield spreads between common stocks and investment grade bonds and thus to diminish slightly the relative appeal of junior equity securities for the savings banks. In fact, the yield spread between the previously mentioned indexes declined from about 3¼ to 2¼ percentage points. There has been another important development which has significantly increased the appeal of equity securities.

In the first place the Korean war imparted a new and powerful impetus to prospectively flagging corporate capital investment thereby accelerating the rate of new security emissions and the volume of capital financing through the bond market.

This situation which in itself was of measurably restraining influence marketwise was exceeded in importance by another development of outstanding significance. I refer to the shift in Federal Reserve credit policy in the early part of 1951 under which higher interest rates and higher yields for Treasury securities were sought as a powerful anti-inflationary influence. It is, of course, axiomatic that any substantial changes in the yield structure of the Treasury securities market will find sympathetic adjustments throughout the market for high grade bonds.

Furthermore, common stock yields are somewhat lower than two years ago due principally to higher prices without offsetting increases in dividends. It should be emphasized that in spite of the foregoing the differentials are still sufficient to emphasize the relative attractiveness of common stocks from the standpoint of yield. Yields of investment grade preferred stocks, markets for which are influenced largely by those factors which dominate the high grade bond market, have naturally moved somewhat higher in sympathy with the adjustment to higher long-term yields.

Finally, Federal taxation of the undistributed net earnings of mutual savings banks (of which the capital funds and reserves aggregate at least 12% of deposit liability) was a development signally increasing the attractiveness of equity securities to the savings banks. I should be disinclined to favor any manifest distortions of investment policy based upon tax objectives but there can be no escape from the obvious conclusion that as prudent management and as prudent trustees we should be remiss in our responsibilities if we failed to avoid the burden of unnecessary taxation.

While originally the exclusive objective of the New York State savings banks in seeking equity investment powers was the maximum augmentation of earnings with a minimum exposure in risk assets Federal taxation seems to have become for many banks the factor of controlling importance in equity investments. At least it is probably a true statement that in a substantial majority of cases purchases of equity securities have been influenced by tax considerations.

It is obviously unnecessary to emphasize before this group the basic investment factors involved in Federal taxation of mutual savings banks. Considering the intercorporate dividend credit of 85% which applies, subject to limitations in the Internal Revenue Code, to all dividends except those on certain public utility preferred stocks, the combined normal and surtax rate of 52% would be reduced to 7.8% with respect to dividend income.

Thus the spread between the after-tax net yields from equities and other taxable investments is significantly widened in favor of equities. Equity securities provide the most effective means of producing an annual increment to the surplus of a savings bank of which the undistributed net earnings are subject to Federal tax.

Investment and Economic Significance of Equity Securities

The investment significance of the equity market from the standpoint of the savings banks has been given inadequate recognition. The savings banks can gain access to a large and important segment of the country's industrial economy in which are to be found many signally successful corporations with well-established earning power, impressive dividend records and favorable growth prospects only through the medium of equity securities. In some instances such corporations either have no funded debt or sustain such debt in small amounts. In such instances the equity securities of these corporations represent a high degree of investment quality and security.

At various times economists have emphasized the desirability of stimulating the flow of savings into the market for equity securities on the basis that over the years the supply of equity capital

Continued on page 26

*An address by Mr. Middlebrook at the Annual Meeting of the Savings Banks Association of Maine, at Portsmouth, N. H., Sept. 23, 1952.

Dealer-Broker Investment Recommendations & Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Air Conditioning—Analysis with special reference to **Carrier Corporation, Servel, Inc., York Corporation, Tecumseh Products Company, Trane Company** and **Copeland Refrigeration Corp.**—Eastman, Dillon & Co., 15 Broad Street, New York 5, New York.

America's 23 Top Favorite Share Investments—Survey—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Bank Stocks—Bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Coal Stocks—Letter on ten leading over-the-counter coal stocks—George A. Rogers & Co., Inc., 120 Broadway, New York 5, New York.

Fire and Casualty Insurance Stocks—Bulletin—White & Co., 506 Olive Street, St. Louis 1, Mo.

How to Save Administration Expenses and Estate Taxes—Booklet—The Wellington Co., 1420 Walnut Street, Philadelphia 2, Pennsylvania.

Investment Guide—Monthly bulletin—Sutro Bros & Co., 120 Broadway, New York 5, N. Y.

Low Priced Speculative Canadian Oil Shares (traded on New York Curb Exchange)—Bulletin—Bruns, Nordeman & Co., 60 Beaver Street, New York 4, N. Y.

Natural Gas Industry—Review—Stern, Frank, Meyer & Fox, Union Bank Building, Los Angeles 14, Calif.

Philadelphia Banks Stocks—Comparison of 11 largest Philadelphia banks—Stroud & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

Steel—Analysis in current issue of "Market Pointer"—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y. Also in the same issue is a brief discussion of **Lower Priced Rails, Chemicals**, and a list of companies which anticipate higher earnings. In the current issue of "Gleanings" is a brief analysis of **Standard Coil Products** and a tabulation of **Natural Gas** reserves of major companies.

* * *

American Telephone and Telegraph Company — Circular — Hardy & Co., 30 Broad Street, New York 4, N. Y.

Atlantic Aircraft Corp. — Memorandum — Securities National Corp., 1060 Broad Street, Newark 2, N. J.

Bank of America—Analysis—Hill Richards & Co., 621 South Spring Street, Los Angeles 14, Calif.

Central Public Utility—Bulletin—Troster, Singer & Co., 74 Trinity Place, New York 6, N. Y.

Colonial Sand & Stone Co.—Bulletin—Gartley & Associates, Inc., 68 William Street, New York, N. Y. Also available is a bulletin on **Newport Steel Corp.**

Golden State Co., Ltd.—Analysis—J. Barth & Co., 404 Montgomery Street, San Francisco 4, Calif.

Goodall Sanford, Inc.—Memorandum—Maine Securities Co., 465 Congress Street, Portland 2, Maine. Also available is a memorandum on **Keyes Fibre Co.**

Harris-Seybold Company—Analysis—B. W. Pizzini & Co., Inc., 25 Broad Street, New York 4, N. Y.

Lockheed Aircraft—Bulletin—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Marshall Field & Co.—Memorandum—Lee Higginson Corp., 231 South La Salle Street, Chicago 4, Ill.

Mexican Gulf Sulphur—Analysis—George B. Wallace & Co., 15 William Street, New York 5, N. Y.

Nuclear Instrument & Chemical Corp. — Circular — **Republic** Investment Company, Inc., 231 South La Salle Street, Chicago 4, Ill.

Puget Sound Power & Light—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y. Also available is a memorandum on **Central Maine Power** and **Public Service of New Hampshire.**

Riverside Cement Co. — Analysis and review of the Cement Industry—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Taylor Oil & Gas Co.—Analysis—Raymond & Co., 148 State Street, Boston 9, Mass.

Textiles, Inc.—Report—Raymond & Co., 148 State Street, Boston 9, Mass.

Trans Mountain Oil Pipe Line Company—Analysis—Dominion Securities Corp., 40 Exchange Place, New York 5, N. Y.

Washington Water Power Co.—Memorandum—Pacific Northwest Co., Exchange Building, Seattle 4, Wash.

NSTA Notes

AD LIBBING

For the outstanding performance this past week we bring to the attention of our members a portion of a letter written by Harry Arnold, President of the Security Traders Association of New York, member of the National Executive Committee, nominee for the office of President of the NSTA for 1953, and also STANY Chairman of our National Advertising Committee.

Harold B. Smith

This letter was addressed to approximately 300 partners of New York firms and we quote: "NSTA is made up of over 4,000 individual members and 30 affiliated groups from every section of the United States. The 19th annual convention will be held this year at the Roney Plaza Hotel, Miami Beach, Fla., Oct. 20-24. In addition to the usual business sessions our conventions are addressed by the country's top men in business and finance, and are usually attended by one or more of the Commissioners and some of the key staff men of the Securities and Exchange Commission. Besides affording an opportunity to hear and meet these men, those of us who have attended these conventions in the past have found them of great value as a means of getting acquainted with many traders and partners of firms from distant parts of the country with whom we do business—and equally important, we are finding an opportunity to establish new mutually profitable connections. . . . I also urge you to cooperate by taking an ad in the Convention issue of the 'Commercial and Financial Chronicle' and to secure additional ads if at all possible. The activities of our Association are a costly undertaking. Frequently because of limited resources, activities are hampered, which if carried out completely, would be good for the public, our industry and ourselves. Our income is derived from dues, plus a share of the income from the Convention issue of the 'Chronicle,' so your help will be greatly appreciated."

Harry's letter has produced additional registrations and also new ads. May we suggest members of our National Advertising Committee incorporate some of the above ideas to increase our gross advertising. Our gross to date is $20,668.50.

HAROLD B. SMITH, Chairman
NSTA Advertising Committee
Pershing & Company
120 Broadway, New York 5, N. Y.

NATIONAL SECURITY TRADERS ASSOCIATION

The 19th Annual Convention Program of the National Security Traders Association at Miami Beach, Fla., Oct. 20-23, 1952 is as follows:

Monday, Oct. 20—

- 11:00 a.m. Convention Special Arrives Miami
- 4:00 p.m. Motor Boat Cruise, Miami Beach Waterways
- 6:00 p.m. Reception, Host's Florida Security Dealers
- 7:30 p.m. Florida Nights, Outdoor Steak Roast
- 9:00 p.m. Water Aquacade

Tuesday, Oct. 21—

- 8:00 a.m. Past Officers Breakfast
- 9:30 a.m. National Committee Meeting
- 12:30 p.m. Men's Luncheon—
  Speakers: McGregor Smith, President, Florida Power & Light Co.; Jerome Fischer, Traffic Engineer Specializing in Turnpike Issues.
- 1:00 p.m. Ladies leave for Motor Tour, Fashion Show and Tea.
- 6:30 p.m. Cocktail Party
- 7:15 p.m. Amateur Show

Wesnesday, Oct. 22—

- 9:30 a.m. National Committee Meeting and Election of Officers.
- 11:00 a.m. Golf Tournament
- 3:00 p.m. Tennis Tournament

Thursday, Oct. 23—

- 9:00 a.m. Breakfast for Men
  Speaker: Raymond Rodgers, Professor of Banking, New York University, "The Economic and Financial Outlook."
- 6:30 p.m. Cocktail Party
- 7:30 p.m. Dinner Dance, Informal Dress.

Reservations should be forwarded at once to John W. Bunn, Secretary, Stifel, Nicolaus & Company, Incorporated, 314 N. Broadway, St. Louis 2, Mo.

SECURITY DEALERS OF THE CAROLINAS

A joint meeting of the Securities Dealers of the Carolinas, the North Carolina Municipal Council and the South Carolina Municipal Committee will be held on Thursday and Friday, Oct. 23 and 24 at Mid-Pines Inn, Pinehurst, N. C.

The membership of the Securities Dealers of the Carolinas is composed of 42 firms in the two states. The North Carolina Municipal Council and South Carolina Municipal Committee gather and disseminate financial information on political subdivisions in their respective states. The membership of these two organizations is composed of banks, insurance companies and securities dealers.

Mid-Pines Club is located in the Sandhills section of North Carolina midway between Pinehurst and Southern Pines (about three miles from each). A majority of those attending the meeting will probably prefer to make the trip by automobile on the good roads which lead to Southern Pines from all directions. Those making the trip by rail from North or South will find excellent

Continued on page 33

The Tax Picture and The Mining Industry

By HON. THOMAS E. MARTIN*
U. S. Congressman from Iowa

Congressman Martin traces developments over past few years in Federal spending, debt and tax matters, and points out these challenging problems must be met straightforwardly if we are to build the strength in our mining industry needed to support our expanded industrial production. Calls for tax relief to encourage exploration and development work in mining.

For 13 years I have watched with alarm the feeble efforts and slow progress made by our Federal Government in stockpiling strategic and critical materials. Even more alarming has been the failure to realize the essentiality of a vigorous and healthy mining industry within our own country. The Stockpile Law, Public Law 520 of the 79th Congress, recognizes the importance of conservation and development of sources of strategic and critical materials within the United States, and the Munitions Board is charged with the administration of this law. But the Munitions Board has not sponsored any program whatever to build up our domestic mining industry and they have washed their hands of any such responsibility. Congress itself has been exceedingly slow in recognizing that a strong, prosperous and efficient domestic mining industry is basic to the national security.

Thos. E. Martin

Under these circumstances it has become increasingly important that we develop tax laws that will aid in attracting capital to the mining industry. Severe shortages of some metals and minerals have given rise to the need for more favorable tax laws, and some surpluses have brought home to us the realization that military stockpiles could be built up in periods of surplus without creating severe competition to private industry for such materials and thereby also extend some stabilization to the mining industry. Favorable tax legislation is made more difficult because of the tax situation confronting our Nation today. This tax situation now confronting us stems from excesses of recent years in Federal spending which have given rise to large deficits, exceedingly burdensome taxation, and all time world record levels of Federal debt.

In 20 years of New Deal and Fair Deal spending, the Federal spending budgets have totaled $792,000,000,000 and the annual spending budget has now reached $85,000,000,000 for the fiscal year alone. Federal taxation will reach $75,000,000,000 for this fiscal year and our Federal debt will be increased another $10,000,000,000. The total increase in our Federal debt will be from $18,000,000,000 in 1933 to $275,000,000,000 at the end of the present fiscal year. The enormity of this Federal debt is a dire warning to us, because the indebtedness of all organized governments in the world today, out-

Continued on page 47

*An address by Mr. Martin at the 1952 Metal and Nonmetallic Mineral Mining Convention and Exposition, The American Mining Congress, Denver, Colo., September 24, 1952.

Federalism and the Future Of Savings Banks

By ROBERT M. CATHARINE*
President, National Association of Mutual Savings Banks
President, Dollar Savings Bank, New York City

Savings bank executive, in outlining encroachment of Federal legislation in savings bank field, lists: (1) establishment of Federal Savings and Loan System; (2) extension of Federal deposit insurance to savings banks, and (3) making mutual savings banks subject to Federal income tax. Says creation of strong competitor, represented by Federal Savings and Loan System, is a potential threat to State savings banks and means possibility of Federalization of savings banks. Reviews arguments for and against Federalization, and upholds principle of local control of banking.

I want to talk briefly on the matter of Federalism and the Future of Savings Banking. By Federalism, I mean the increase of the influence of the Federal government on the mutual savings bank system and particularly on the regulation of that system.

Robert M. Catharine

There are now mutual savings banks in 17 states of the Union, ranging in number from 188 in Massachusetts to one each in Oregon and Minnesota. Total deposits are now nearly $22 billion and the total number of depositors is approximately 20 million. In New York State, savings banks have aggregate deposits of almost $13 billion. These institutions, as a group, are therefore of great importance and the public interest in their management and supervision is of the highest.

All mutual savings banks are state-chartered and all are under the supervision of state banking authorities. Twenty years ago they stood clearly outside the sphere of Federal influence. Since that time three things of the highest importance have occurred to alter this picture:

First, the Federal Savings and Loan System has been set up and fostered by the Federal government. Federal savings and loan associations are supervised by the Federal Home Loan Bank System and their powers are to a large extent subject to contraction and expansion not by law but by the regulations of the Federal Home Loan Bank Board. The creation of the federal savings and loan system has provided savings banks with their most powerful competitor in the field of private institutional saving.

Second, the Federal Deposit Insurance Corporation has been established. Many savings banks have joined it and have thus become subject directly to Federal supervision.

Third, savings banks have become subject to the Federal income tax. Fortunately, the drastic effects of the original tax proposal were avoided through the effective aid of members of your association, but the tax now exists and will doubtless continue to exist. Already it has presented major problems for state supervisors and it will continue to do so.

Federal Government Creates Strongest Competitor

To sum up the situation to date, the Federal government has brought its influence to bear upon the savings bank system by establishing our strongest competitors, the Federal savings and loan associations; by providing many of us with direct supervision through the Federal Deposit Insurance Corporation; and by imposing upon us the Federal income tax with all of its problems, both for management and for supervisors.

Now, to my mind at least, none of these aspects of Federal influence upon savings bank affairs need constitute a threat to the continuance of the state supervisory system which has worked so well for our institutions in past years. We can doubtless live with the Federal income tax if it is imposed on a reasonable basis and is amplified by reasonable regulations. We should be glad to live with the Federal Deposit Insurance Corporation. My bank was one of the first banks in our state to join this system. Subsequently, under the leadership of our State Banking Department, all the savings banks in our state have become members.

It is in the third sphere of Federal influence upon savings bank affairs—that of competition from Federal savings and loan associations—that I find a potential threat to the state supervisory system. I think we had better get this matter out in the open here and now. The potential threat which I see is that of federalization of state-chartered savings banks in the same manner that many state-chartered savings and loan associations have been federalized. I realize that such a step as this would require major legislation—Federal and state—but if the time should be ripe and the support should be strong, it is useless to pretend that such legislation is impossible.

Already the possibility of federalization of savings banks has been brought forward in our state. As a preliminary step, membership in the Federal Home Loan Bank System has been discussed. The problem is real. It cannot be ignored.

Question of Federal Charter

What is the attraction of the Federal charter? Those who find it attractive would doubtless raise such points as these:

First, the Federal charter would bring all major thrift institutions under the Federal Home Loan Bank Board. This supervisory agency would have no commercial banks or other banking organizations to supervise. It could thus give its single-minded attention to the promotion of thrift institutions, especially as regards legislation for their benefit. Contrast this, it would be said, with state supervisors who are obliged to balance the interests of various types of organizations under their supervision.

This argument consists of one of those vague generalities that have their appeal in the abstract more than the concrete. It assumes that the Federal Home Loan Bank Board is ready to disregard any ideals of a properly integrated banking system with various types of institutions having differing powers. It assumes that Congress, and those banking interests which have an influence in Congress, will let the Home Loan Bank Board have its way in these matters. Finally, this argument fails to note that state authorities have often taken the lead in obtaining expanded powers for thrift institutions when such powers are clearly desirable.

A second argument for Federal charter would be that thrift institutions are subject to a system where their powers are determined to a large extent by regulation of the Home Loan Bank Board. Therefore, they can obtain increased powers without resort to Congress. Contrast this to state institutions, which must seek any desired increase in powers from the state legislature, where their efforts can be successfully blocked by adverse interests.

This argument has undoubtedly some appeal and it finds concrete support in the exercise of the power of the Home Loan Bank Board to authorize branches of savings and loan associations without regard to state law governing thrift institutions.

However, it will be borne in mind that Congress can limit the exercise of these broad powers if they are used too freely. Also, general powers of this kind can be a boomerang for they can be used restrictively as well as expansively. The statutory method of defining powers and duties has at least the advantage of preventing supervisors from adopting restric-

Continued on page 46

*An address by Mr. Catharine at the Annual Convention of the National Association of Supervisors of State Banks, Baltimore, Md., Sept. 25, 1952.

Challenges Confronting the Nation's Savings Banks

By RAYMOND RODGERS*
Professor of Banking
Graduate School of Business Administration, N. Y. U.

Professor Rodgers lists among challenges confronting savings banks: (1) the competition of the new Treasury H bonds; (2) the social security pension funds; (3) the heavy taxes on savers; (4) higher bank operating costs, and (5) difficulty in obtaining adequate and efficient personnel. Says all these challenges can be successfully met.

In sober truth, savings banking faces the greatest challenges of its long and honorable career. Part of these challenges are political and are faced in common with all America; part are economic, and are faced in common with all business; and, part are of a distinctly savings bank character, and thus should be faced by savings banking as an organized industry.

Raymond Rodgers

The Political Challenges

On the international political side, Korea continues to demand men, materials and money. And Europe, so far as mutual security is concerned, is not making the progress that was originally anticipated.

On the national political front, the "made-in-Washington" character of the current high level of business activity is becoming increasingly apparent. In addition to government purchasing of practically everything under the sun for our military forces, our allies and our bureaucrats, the accelerated depreciation provision of our tax laws also has undoubtedly caused some corporations to overexpand production facilities. Also, the powerful pressure of the Excess Profits Tax toward overexpansion and a scale of living beyond corporate means is well known.

Artificially low interest rates, direct loans, government guarantees and subsidies of one sort and another have induced a volume of private home building which may prove to be beyond our needs, or, at least, means to support, in more normal times. In similar fashion, public housing is adding to the real estate value pressures which are building up in the economy.

*Address by Dr. Rodgers at the 29th Annual Meeting of the Savings Banks Association of Maine, Portsmouth, N. H., Sept. 22, 1952.

The unwarranted and unconscionable governmental interference in the steel wage dispute is another instance of the substitution of politics for economics. It can only further contribute to the artificial character of the American economy.

Looking at the political challenge in terms of votes, the economic cards appear to have been stacked against the Republicans. As the Prentice-Hall Economic Report puts it, "the business cycle seems to be playing on the Democratic side." Starting on Oct. 1, increased social security payments will be rolling out of Washington; defense spending will be very close to its peak; and, consumer goods lines will be going strong because of the increased wages and decreased inventories flowing from the steel strike. In short, by election day, on Nov. 4, unemployment will be practically non-existent, and output, employment and income will be at record-breaking all-time levels. The political implications are obvious!

The Economic Challenge

On the economic side, savings banking faces the challenge of an eventual downturn in business which is growing increasingly serious in character. Despite the rosy outlook for the months immediately ahead, dangerous stresses are developing in the economy. The steel strike delayed the business readjustment which was in the making in most lines, but it only delayed it—it didn't eliminate it. Already that ironic phrase, "profitless property," which characterized another period of unhappy memory, is being used to describe conditions in several industries. Profitless volume at present prices is preferred to lower volume, which will not support today's high overhead. Yet, few non-durable goods and fewer durable goods manufacturers are producing at full volume.

Industrial balance sheets have been becoming less liquid for months; in particular, the proportion of cash and government bonds to current liabilities has sharply dropped.

Partly because of higher prices, and partly because of larger physical volume and inventories, but mostly because of the preferential tax treatment given borrowed capital, bank loans and other corporate indebtedness have increased to the point where they seem to be out of line with owned capital in some enterprises.

Challenge of a More Valuable Dollar

Now, to this capital weakness is added the problems of declining prices. Since March, 1951, wholesale prices have slowly, but steadily, declined. And during the same period, raw material prices dropped precipitately; in fact, the spot primary market prices of the 28 sensitive, internationally traded commodities dropped from a peak of 392 on Feb. 16, 1951 to 293.8 in August of this year, a decline of nearly 100 index points!

As the dollar increases in value, price distortions will tend to be corrected; that is, prices which went up the most tend to fall the most. If this should happen, real estate will be in a very vulnerable position. This is true because the rise in housing construction costs has continued virtually without interruption since the late '30s, except for about 10 months at the end of 1938, and in part of 1949. In fact, on the basis of the average costs of wages and materials in 20 large cities, E. H. Boeckh and Associates, as reported by the Cleveland Trust Company, estimate that a brick house which cost $10,000 to build in the 1935-39 period would have cost $23,460 to build toward the end of 1948, and would have increased further in cost to about $26,000 by June of this year.

When these real estate costs are weighed against the present rate of construction, the present rate of family formation and the present carrying charges on real estate already financed, the inevitable conclusions are disquieting, to put it mildly.

Housing construction this year apparently will exceed 1,000,000 units, although family formation will probably be little more than one-half of this total. In fact, we have now entered a period of low family formation caused by the low birthrate of the depressed 30s. The great increase in population in the 1940-50 decade has caused some analysts to overlook the striking economic fact that the entire increase came in the group below 10 and that above 25 years, whereas in the 10-to-25-year group there was an actual drop in population of 2,247,000, or 6.3%. This shrinkage has caused some population experts to place the 1955 increase in new households at no more than one-third that of 1948!

In addition to this sharp decline in need for new housing, the financial burden of carrying existing housing is steadily getting heavier. Outstanding mortgage debt on 1- to 4-family houses increased $3.2 billion in the first half of this year to $57 billion on June 30. When, to the interest charges on this huge debt is added the amortization payments required in most modern mortgages, the depressing effect on the family pocketbook becomes quite evident. It could easily affect public enthusiasm for real estate when employment and payrolls begin to decline.

In connection with current urban real estate prices, it might be well to keep in mind that overcapitalization of farm real estate brought disaster to farmers twice within the last generation!

Direct Savings Banking Challenges

Savings banking faces many challenges of a direct character in its own field. This is to be expected as the American economy has become increasingly dynamic

Continued on page 18

From Washington Ahead of the News

By CARLISLE BARGERON

In the opinion of the Washington professionals—that is to say those who make their living out of politics—and they are legion—and those semi-detached political minds, this has gotten to be the screwiest campaign that was ever had.

First, there was the Nixon incident. Listening to the mourners on the Eisenhower train and the editors and commentators who reflected this mourning, Nixon had to be got rid of. This, to my mind, was dangerous thinking and all too symptomatic of a trend in this country.

Carlisle Bargeron

A forceful argument with Eisenhower, from the men around him and several influential newspapers, was that here was the time for him to be firm and decisive. If he moved quickly to cut off Nixon's head, he would show that he was a very strong man, and not one to tolerate any deviation from political honesty. It would show forceful leadership; increase his stature.

Now, the facts are that if Nixon had been unwilling, Ike could not have fired him. To get rid of him would have taken another Republican convention. Ike and Nixon are running as the nominees of a Republican Party convention. A lot of our influential editors and others don't like that; just Ike is running, as they see it, and he should kiss off this and that Senator whom these influences don't happen to like. You wonder just what conception these brilliant men have of our government and just what they are trying to bring about. Do they want Ike, just Ike, to win on the strength of his popularity, or do they want the Republican Party to win?

I should hate tremendously to see Ike Eisenhower, the great military leader, win the Presidency of this country, personally and because of sheer idolatry for him. If such as that can happen, then we ought to go back and apologize to those Europeans at whom we have been prone to scoff because they go for personal leadership. At that, I have little doubt that our voters in the mass would like to go for personal leadership but it is disappointing to see some of our leading newspapers and other moulders of public opinion advocating it.

However, as it turns out, the Nixon incident boomeranged and instead of his being a liability to the ticket he has become an asset, the first time in history, to my knowledge, a Vice-Presidential candidate has become one.

On one occasion in the 1944 Presidential campaign I sought to draw attention to the Vice-Presidential candidacy of Harry Truman; to ask about him, to suggest the voters should know something about him because he could become the next President of the United States. Nobody wanted to know anything about him; I was denounced for trying to bury the Great Roosevelt before he was dead.

But this year, the Vice-Presidents of both parties are very much at issue. Nixon, because of his tremendous breast exposing, has come to be, at least temporarily, a national hero and is drawing crowds all out of proportion to the usual Vice-Presidential candidates.

There has, however, developed a lot of cleverness, or so I think, on the other side. Stevenson is caught in something which, to my mind, is far less explainable than the Nixon fund. Thus caught, though, Stevenson goes in for the baring of all income tax returns of the candidates: with considerable gusto, he makes his own income tax returns available and invites Ike to do likewise. Ike has accepted the challenge.

Stevenson's move was primarily to focus attention on the arrangement by which Eisenhower was permitted to pay a capital gain, instead of the regular income tax on his book, "Crusade in Europe." Congress subsequently removed what was described as a loophole in the tax laws which permitted this. The removal came to be known as the Eisenhower amendment. However, the book didn't sell as well as was expected and there is a question whether the Treasury didn't get more out of Ike than it would have otherwise.

But Stevenson's strategy, I am convinced, goes even deeper than focusing attention on this matter. He is trying to divert attention from the real issues. If he can get people to talking about his income and his income taxes, and Eisenhower's income and Eisenhower's income taxes, he will have got them to quit talking about high prices, inflation, Korea, Communism, etc.

Stevenson's strategy in this respect would be to render passive those voters who are angry and indignant, who want a change. It is possible for them to get so tangled up in a maze of the personal finances of the candidates as to end up in a daze, and with a feeling of futility. That would be bad for the Republicans.

American Optical Co. $3\frac{3}{8}\%$ Notes Placed

American Optical Co. has announced that it has negotiated through Kuhn, Loeb & Co. the sale of $4,000,000 of its 20-year $3\frac{3}{8}\%$ sinking fund notes due Oct. 1, 1972, to an institutional investor, $2,000,000 thereof to be sold Oct. 1, 1952 and $2,000,000 to be sold on Oct. 1, 1953. The company has an option to sell to the same investor an additional amount of notes, not exceeding $2,000,000 on Oct. 1, 1953.

Proceeds of the financing will be used to reimburse the company for capital expenditures of approximately $1,000,000 for the construction of its Keene, N. H., plant and a research laboratory in Southbridge, Mass., and to convert current bank borrowings into long-term indebtedness.

Westheimer Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—Robert A. Harrison is now affiliated with Westheimer and Company 326 Walnut Street, members of the New York and Cincinnati Stock Exchanges.

Corporate Tax Savings Through Profit Sharing Trusts

By JAMES W. BRIDGES
General Manager, Frank D. Newman & Co.
Investment Securities, Miami, Fla.

Asserting substantial corporate tax savings through profit sharing trusts are still possible in 1952, Mr. Bridges lists and describes principal features of tax savings plans and procedures for carrying them out. Prefers the Profit Sharing Trust to the Pension Retirement Plan, since former offers definite advantages in preserving the financial strength of the corporation and also gives substantial advantages to employees. Concludes "creation of a profit sharing trust is both simple and economical."

It is later than you think—but substantial corporate tax savings are still possible in 1952. Corporations wishing to take advantage of the tax savings possible under Section 165A of the Internal Revenue Code have little time left to them. If the deductions permitted under this section are going to be taken from this year's income, action must be completed prior to the end of the company's fiscal year. As the majority of businesses operate on the calendar year and the procedures necessary to establish and clear these deductions with the Internal Revenue Department may require as much as two months, it is, therefore, not too soon to begin the necessary analysis of the earnings and tax picture. This article summarizes the principal features of such plans and the procedures necessary to carrying them out.

James W. Bridges

Profit Sharing Trusts—Any Business Can Afford a Retirement Plan

Both labor and management have become highly conscious of the necessity for setting aside some portion of the profits of industry to provide financial security for the retirement of personnel. This is the conclusion reported as the result of discussions with officers of a substantial number of corporations as well as investment authorities in Boston and New York.

The combination of high personal income taxes and high living costs has made it increasingly difficult for the individual to accumulate a worthwhile estate. The "tax drag" on such small amounts of savings as the average person can accumulate makes the building of capital even more difficult.

Provisions in the Internal Revenue Code have made it possible for savings to be accumulated free of tax—either income or capital gain—under approved plans. They have further provided that, under certain conditions, when such accumulations are finally distributed the total amount shall be taxed at long-term capital gain rates.

Two basic types of plans are permitted under this legislation. The better known at the present time is the typical pension plan. Such a plan provides for payment, upon retirement or death, of a fixed dollar amount to the individual employee or his estate. Such plans are usually carried out through insurance annuities except in very large companies. Because the plan requires the payment of a fixed number of dollars at some distant date, the company considering such a plan must be prepared to assume a fixed annual liability far into the future. Failure to maintain the plan, due to a bad year or years, may force the abandonment of the plan which could impair or even eliminate all benefits accrued up to that time.

In recent years an increasing amount of attention has been drawn to the other type of plan permitted — the Profit Sharing Plan of which some five thousand are already in existence according to the Internal Revenue Department. Many companies which had been unwilling to assume the long term commitment involved in the creation of a Pension Plan have turned to the Profit Sharing Trust. This type of plan not only offers definite advantages in preserving the financial strength of the company, but in addition promises substantial advantages to the employee. The fact that the entire contribution to such plans is a deductible expense for tax purposes, within specific limitations, has made the real cost far less burdensome to the corporation.

Briefly, the section of the Internal Revenue Code dealing with Profit Sharing Trusts permits any company, in any taxable year, to set aside from profits an amount not to exceed 15% of the total payroll. Such contributions are a deductible expense, provided they are irrevocably put into a trust fund for the benefit of qualified employees. For the purposes of such a plan officers and officer-stockholders are also considered as employees. The money in the Trust may be invested and all income and gains resulting from the investment are free of tax in the trust.

In developing the plan the corporation is allowed complete flexibility in establishing a formula which will be applied to each year's business to determine whether a contribution shall be made or not. In an unusually good year a company may set aside up to two years' contributions, the second half being deductible in the second year. Conversely, a company which had made no contribution, because of failure of profits to reach the required level, may, when profits again become fat, make up the back contributions by contributing up to two years' contribution in each taxable year.

Perhaps the most important point to remember in considering the question of a Profit Sharing Trust as contrasted to a Pension Plan is that the company has no liability for making a contribution except in those years when profits reach the stated level.

The Employees' Viewpoint

In considering the advantages of a Profit Sharing Trust it is of the utmost importance that the personnel of the organization understand the possible greater benefits which may accrue from this type of plan as contrasted to the ordinary Pension Trust. Most labor leaders at first were inclined to the Pension Trust with its modest but guaranteed annual payment to the retiring employee. The idea of fixed security has of course always been appealing, but the past ten years of rising income taxes and rising living costs has worked serious and even tragic hardship on hundreds of thousands of people who depended upon this type of retirement income. The increasing use of common stocks in pension trusts reflects another phase of the problem—that is the substantial decline in the interest rates available from fixed dollar types of investments.

The Profit Sharing Trust is under no burden to provide for fixed dollar payments at some distant future date. The Profit Sharing Trust is not required to submit the plan for annual review by the Treasury Department to determine if the annual contributions are still adequate to meet the purposes of the plan. Being freed of these requirements the trustees are at liberty to take advantage of substantially higher rates of income available from investments not suitable for a pension plan and, in addition, to use classes of securities which have sufficient capital growth possibilities so that the development of capital gains is a reasonable possibility. The Profit Sharing Trust in the hands of competent professional investment managers may well be expected to outstrip the investment results obtainable by a typical pension trust over a reasonable period of time.

A second source of benefit to the Profit Sharing Trust is the so-called forfeiture credit. Any employee who resigns from the company prior to the time his interest in the trust becomes vested forfeits that interest, which is divided among the surviving beneficiaries under the trust. Inasmuch as the employee has paid no contributions to the trust, and as one of the purposes of the trust is to reduce personnel turnover, such a provision is perfectly equitable. If the employee stays with the company until his interest becomes vested, a substantial benefit is created for him or his heirs but if he leaves there is no reason why the company should pay a premium to him.

The payments required to maintain a pension plan must be met each year in order to keep the plan functioning properly. If the corporation, as a result of a sharp decline in earnings, is unable to [illegible] in the plan being abandoned. This in turn could even wipe out completely any protection afforded from payments made in prior years. Labor today is becoming more realistic in recognizing the fact that the major source to which they can turn to maintain retirement benefits is the company for which they work. Any plan, therefore, which may threaten the solvency of the company is unsound and may ultimately bring about its own destruction.

In contrast the Profit Sharing Trust requires that contributions be made only in those years where profits are sufficient to support them. If two or three lean years result in inadequate earnings and thus no contributions, these back accumulations may be made up at the rate of two years' contributions per year until the deficit is cleared up. Inasmuch as the history of business indicates that fat years usually follow lean years it is quite probable that over a period of time the contributions will average out at the full rate called for in the plan. It is important to note in this connection, that unlike the pension plan, the failure to maintain the contribution schedule in no way affects the benefits previously accumulated. They continue to earn and compound, and the forfeiture credit factor continued to benefit those employees who stay with the company.

Two established Profit Sharing Trusts—one that of a financial institution in Boston and the other created for the benefit of employees of a large publishing concern in New York are excellent examples. In both instances the combination of income earnings on investments held in the respective trusts plus the effect of forfeiture credits has resulted in an earning rate of approximately 10% compounded annually. This is irrespective of gains on security transactions for the trusts. When it is considered that the type of security income which a conservatively operated pension trust might hope to achieve is more likely to be in the neighborhood of three to three and one-half percent the reason for the growing interest in profit sharing trusts is not hard to understand.

Finally it should be kept in mind that pension benefits must be necessarily established in the light of today's price levels and today's cost of living although the benefits will not be paid to beneficiaries until 10, 20 or even 30 years from now. A pension plan guaranteeing a life income, which might be more than adequate by today's standards, may prove to provide even less than a subsistence income 20 years from now. The best source of information on this subject are those people who have been living on fixed dollar pensions for the last 20 years and who have been fighting a steadily losing battle with rising taxes and rising living costs.

The Company Viewpoint

While management and labor have been frequently pictured as natural antagonists in recent years, their community of interest is nevertheless substantial. In the first place neither can function without the other. In the second place both as regards current earnings and ultimate retirement protection both look to the same source, namely, the company for which they work. Such quarrels as have arisen stem more from the question of what is a fair division of the profits of the business than any ideological conflict. Both sides would be less than human if they did not tend to over-value their own importance in the picture.

It so happens, in the division of responsibility, that planning the operation of the company, first so that it will continue financially strong and second so that it will be as profitable as possible, falls on the shoulders of management. Among these responsibilities is determining to what extent profits can be employed to provide retirement security for both labor and management, without running the risk of putting the company in such a weakened condition that

Continued on page 20

Task of Defending Our Liberties Against Ourselves

By BENJAMIN H. HAZEN*
President, United States Savings & Loan League

Asserting it is impossible to dissociate right to own property from human freedom, Mr. Hazen contends the right has been impaired by "our very own people" who have approved policies which inflated the currency, expanded Federal debt and purchased present benefits "on the cuff" to be paid for "or not" by our grandchildren. Points out, without realizing it, American people are undermining their prosperity by spending for social experimentation at expense of government debt.

Thinking is difficult for individuals and far more so by crowds. Everett Dean Martin once defined a crowd—and he included in that classification such crowd groups as religionists, social reformers of various kinds, political parties and trade associations—as "a large number of people going crazy together." He wrote a book comparing the characteristics of crowds with the symptoms of insanity. Speaking as a trade association member to my fellow members, I give you that warning. Maybe I am right in what I shall say, and maybe I am not.


Ben H. Hazen

It is my humble opinion that before many years we shall look back and wonder why we did not sooner start defending our liberties against ourselves.

The liberty which concerns me today is the right to own property. You and I are deeply concerned in it because our whole lives are built around it. We represent and serve property owners. Some of them own personal property in pass books, and others own real property in titles.

It is impossible to dissociate the right to own property from human freedom. Nothing could arouse the resentment of our members so effectively as the arbitrary assumption of government that it had the right to reduce their passbook balances or divide their real property with others. The right to personal achievement, to accumulate its rewards, to spend or invest those accumulations according to your individual choice and to be protected against their seizure by government without due process of law was taught as fundamental to the older men in this group when they attended school. I regret to say that some of the younger men have escaped that teaching by what seemed to be a more important concept of social welfare which has occasionally crowded it out of the curriculum. The rating of greater importance is not mine but is that of many good citizens with whom I disagree.

Yet the value of our passbooks and the value of the real estate underlying our mortgages has been depreciated by actions approved over and over again by the very holders of those passbooks and titles. Values have been lowered by our very own people who have thought they were acting in self-interest by the approval of policies which have inflated our currency, expanded our Federal debt and purchased present benefits on the cuff to be paid for or not by our grandchildren. We have even as a people succumbed to the assurance that it doesn't matter about the size of the debt because we owe it to ourselves. This encroachment upon the value of the property for which we are custodians has been brought about in the name of the common people, and they are our best customers. Very few capitalists of great wealth have entrusted their funds to us. We represent the capitalists of modest wealth and of tomorrow's achievement. It is they who are the great victims of present socialism and the ultimate dictatorship which is inevitable under the course which we are pursuing.

Individual Leadership and Prosperity

One cannot but marvel at the manner in which encouragement of individual leadership, regardless of its origin, has resulted in the spread of American prosperity throughout the population. In the century just ending, the work hours per week have been reduced from seventy to forty. National incomes in terms of equivalent dollars have increased more than sixteen times. Ours is the best standard of living in the world, and our lowest one-third of incomes enjoy better housing, better clothing and better food than the lowest one-third of any nation in the world. Today American management is striving to teach European management that the way to earn profits and justify them is to reduce unit costs, increase volume, lower sales prices, and profit through widened service to a maximum number of consumers.

That outstanding achievement of all history was made possible by the substitution of machinery for animal power and human power. Today's production takes less than 4% of man labor, and less than 12% of animal labor. More than 84% of it is machine labor, and machines are nothing but yesterday's thrift invested in today's capital. Your business and mine is one of the cradles of tomorrow's capitalism for among the members to whom we teach thrift today are tomorrow's customers at banks, leaders of enterprise and purchasers of the machinery which makes American production the wonder of the world. At every census the number of families who are left in lower income brackets is reduced. Every leader who benefits himself and his family by a successful venture into a business of improving the service to others benefits likewise, not only the consumer, but his fellow employees.

Our cost of leadership is ridiculously low—less by far in percentage than the tips we give for carrying our luggage or serving our meals. Wipe out all the big incomes in the country, and you would not have enough to pay our government cost for four months. The Americans of modest income spend more money for tobacco and liquor than they spend for all of the high priced leadership in industry — and I am considering anybody who makes $25,000 or over as high priced in total dollars although possibly low priced in productive value. I have included in that figure all of the idle rich of large incomes; and may I remark that the number of idle rich in America is so far less than the number of idle rich in other classes of income that we should stop worrying about it if an occasional millionaire's son or daughter chooses to distribute his wealth by hiring other people to do his thinking and his working for him.

Private ownership of property and encouragement of individual initiative backed by such ownership is moving rapidly in the right direction. Its only handicap is that we ourselves may so handicap and cripple it that it cannot carry the load of social experiment and governmental interference with personal freedom.

I am endeavoring to make clear that the suckers from such a potential calamity are the thrifty common people who are the members of savings and loan associations. We are crippling the efforts of individuals to achieve by usurping their prerogatives in the name of government. Without realizing it, the American people are undermining their own prosperity by spending for social experimentation at the expense of government debt or, in other words, future generations.

Private Enterprise is Cheaper

It is well recognized that it costs us more to do a job by government than by private enterprise. But that isn't the whole story. Even if the Government spent exactly the same instead of more, it would still be an extravagance. That is because no leader of men would have made a profit. No profit, no reinvestment. No free citizen equipped by experience and a profit to tackle another job-making prospect. The endless chain of private initiative has been broken. It has found an end. Insofar as that project is concerned, only another government appropriation can now move our economy off dead center. Multiply such an example by hundreds or by thousands and you see the deadening, initiative-destroying, heavy hand of government whenever we vote more government in the tasks of our private citizens. The ease with which crowd-thinking may be influenced by well meaning or self-interested citizens is just as great today as it was in those years which followed the signing of the Mayflower Pact and the landing on Plymouth Rock. It sounds so simple and so virtuous when a glib political candidate proposes further debt for social reform. To vote against reforms which we cannot afford seems downright selfish and heartless. To blame leadership in private achievement for not having achieved more than the greatest improvement of any nation in the world seems to be attractive to crowds. Union leadership resorts to it. Political aspirants use it to advantage. It is the hate system, and its formula is to cast suspicion on those leaders who have been successful. It thrives on such fallacious arguments as "If Private Enterprise cannot do it, then Government must." Its ultimate result is the transfer of the freedoms of property ownership to government control. That results in subtle depreciation of the value of property by excessive taxation and by inflation.

You and I are trustees for property owners. Ours is a responsibility to understand what is happening to our members and to find ways to warn them.

The issue of today is number four in the lessons of liberty:

"To conserve the blessings of liberty for ourselves, we must guard it against our own actions."

*From an address by Mr. Hazen at the 64th Annual Convention of the Massachusetts Co-operative Bank League, Swampscott, Mass., Sept. 16, 1952.

The Federal Fair Trade Law

By HON. JOHN A. McGUIRE*
U. S. Congressman from Connecticut

Congressman McGuire, author of recently enacted Federal "fair trade" law, explains its provisions and asserts it is an adequate and necessary protection to small business. Denies "fair trade" laws lessen or restrict free competition or result in higher prices to the consumer. Holds such legislation is in line with tradition of tempering individual liberty for the social good. Concludes "fair trade" laws are here to stay.

A year and a half ago the fair trade laws, passed by the legislatures of 45 states were seriously weakened by the U. S. Supreme Court's Schwegmann decision. The most ironic thing about the situation was that fair trade seemed to have been vanquished by a technicality. The Supreme Court did not hold that fair trade or the non-signer clause was unconstitutional. In a 6 to 3 decision, the Court simply held that the non-signer could not be bound where interstate commerce was involved because Congress did not specifically include the non-signer clause in the Miller-Tydings Act. In short, the Supreme Court's position was what isn't in the law is not law.

Well, Congress has now made itself perfectly clear on the non-signer clause. The McGuire Act spells out the non-signer clause as it appears in the state fair trade laws. Congress passed the McGuire Act by overwhelming majorities in both houses—196 to 10 in the House and 64 to 16 in the Senate. President Truman signed the McGuire Act. The President's signature on the McGuire Act completely dissipates one of the tired arguments against fair trade, namely, that the Miller-Tydings Act was so-called "second-class legislation" because it was passed as a rider to another bill and therefore could not be approved or vetoed separately by the President.

The McGuire Act was no rider to any bill. It was passed on its own merits after fair trade, as an issue, had been intensively examined by no less than five committees of the Congress in a period of less than a year. These committees were: the Senate and House Committees on Small Business; the Senate and House Committees on Interstate and Foreign Commerce; and the House Judiciary Committee.

Thousands of pages of testimony and the days of exhaustive debate on the floor of the House and of the Senate gave every member of the Congress full opportunity to weigh the merits of fair trade and to exercise his legislative prerogative in the light of his own conclusions. In addition to his own examination, every member of Congress had abundant evidence of the stake which small business has in fair trade. The hundreds of thousands of individual petitions that poured in from small businessmen throughout the country showed Congress more effectively than anything else could have done that fair trade was a vital issue to millions of human beings. These human beings depend on small business for their livelihood. They include you and your families and your employees and their families. They include most of the other 1,776,000 retailers in this country with their families and employees. They include the thousands of wholesalers and manufacturers who sell their products through these retailers.

The individual action taken by all these human beings to restore fair trade was an education for many members of Congress. It proved that fair trade is not just an abstract legal and economic theory but rather that it is inextricably bound up with the lives and hopes and futures of millions of Americans. This is a very important fact which I hope the well-meaning gentlemen in the Department of Justice and the Federal Trade Commission will bear in mind. You may have heard that there are thoughtful people, in government and outside of government, who have berated inflexible attitudes toward new legislation reflecting socio-economic change. These very people, however, display a similar inflexibility insofar as fair trade is concerned because they hold obstinately to their doctrinaire views on competition despite the realities of the changing economic needs of today's marketplace.

Congress Upholds State Laws

I hope these gentlemen who oppose fair trade on the basis of textbook economics will remember that Congress has recognized that fair trade concerns people, not ciphers on a graph. In passing the McGuire Act, Congress, as the legislative branch of our Federal Government, has clearly spoken. Congress has said that it will, through the enabling legislation of the McGuire Act, help the states which have passed fair trade laws, to make these laws fully effective. That is precisely why Congress spelled out the non-signer clause in the McGuire Act. For without the non-signer clause in the McGuire Act, fair trade in interstate commerce would have continued to be non-existent, as it was, following the Schwegmann decision.

We are justifiably suspicious of one who says, "The idea of fair trade is all right but I am opposed to the non-signer clause." Such a person is basically opposed to fair trade. He does not really want unfair competition restrained, which is all that every fair trade act seeks to do. Let it be understood that the State fair trade acts establish and enunciate a policy of unfair competition insofar as each State is concerned. That policy is necessarily made applicable to all who handle fair-traded goods, provided they have knowledge of the existence of appropriate fair trade contracts covering their resale. The fair trade contract, it should be understood, is not the State's system of unfair competition. It is the means by which the system is put into operation. In this respect, the fair trade contract is not unlike the electric light switch which is, obviously, not the electrical system but only the means for putting the system into operation.

The non-signer clause is the heart of the State fair trade laws. The first fair trade law passed in California in 1931 had no non-signer clause. Only those who voluntarily signed fair trade contracts were required to observe fair trade prices. The first California Fair Trade Act dismally failed to restrain the unfair competition at which it was aimed. Why? Because the very price tricksters who used unfair methods to deceive the public and destroy their competitors just thumbed their noses at the Act by refusing to sign fair trade contracts. The California Act needed

Continued on page 36

*An address by Rep. McGuire at meeting of the Pharmaceutical Council of Greater New York, New York City, Oct. 1, 1952.

Our Propaganda Failures in Asia

By FLEUR COWLES*

Associate Editor, "Look" and "Quick" Magazines

Mrs. Cowles, reporting on recent tour of Orient, calls attention to its people's glaring misunderstanding of our intentions, together with fear and contempt for our size. Says the "eye-dropper" attention U. S. gives to crucial Asiatic problems is sheer folly. Warns against distributing "big phrases" about wonders of capitalist world, and holds we must abandon dream of transplanting overnight our glorified notion of 20th Century civilization. Urges we learn more about the people we are trying to influence.

I travel outside the U.S.A. quite a lot: in the last two years I've been twice to South America. Three times to Europe. And recently to the Far East. I see and talk to government leaders and interesting personalities wherever I go, but I also talk to anyone at hand, with whom I can revert to sign language when all else fails. And I wince when I think how little the world thinks of us. Why don't we do a better selling job? And why don't we deem it so important we give bigger budgets and bigger brains to the task?

Fleur Cowles

It is in the Orient that I find the most embarrassing form of polite fear and contempt for our size. It glares at you. I admit that even in such a worldly place as France, the propaganda job is still so sticky I have yet to discover one farmer who knows the truth about Marshall Aid, Mutual Aid or the off-shore purchases—or how any one of these has or possibly can affect his life. Yet I think the misunderstandings in the Far East are far more critical. Despite the fact that most of the misconceptions of us are concentrated there, it gets eye-dropper attention in the matter of public relations with U.S.A. This is pure folly since the Far East is really the one last big testing ground left between Democracy and Communism. . . . And all the world watches.

The influence of India, alone, on the vast chain of countries bordering Russia, for instance, is beyond compare. The whole Asian continent is openly haunted by competing furies as tense as any in a Greek drama. In India, the devil is hunger. In China, it is the lust for power over all agrarian Asia. Each spectre stimulates the other to action—setting off a dreadful dance of incipient revolution and never-ending nationalistic quarrels. And Russia has planted so gigantic a cultural offensive on this stage that no one can any longer say he doesn't see it or be immune to its danger.

A Journey to the Orient

I'd like to state promptly that my journey this year to Asia was *brief*. I have only the most personal of impressions—backed by direct and endless inquiry wherever I went on what our American foreign service people are doing about information and propaganda. A lot of what I have to report may be old news to those of you who've had long-term assignments in Asia.

But I would like to point out that even a six-weeks' journey is long enough to blot up intuitively what a country's feeling is for the U.S.A. I came away wishing, as a matter of fact, the Administration would make the same six-weeks' visit. The result might be termed 10-minute expertizing—but on the other hand, making policies by staying home from the Far East doesn't impress me at all. It troubles me that Acheson has gone to Europe six times, but the closest he's ever been to Asia during his service was one short trip to Hawaii. Can't we connect this up with the fact that even his sorely debated foreign policy seems to be working better across the Atlantic than the Pacific?

My journey to the Orient took me to diverse places. I went through the front lines in Korea and up to the Truce Conference. I sat in on off-the-record sessions in Japan. I flew to Formosa to hear at first hand the Chiang side of the story. From there I went to that tense city on the islands and rocks in one of the world's most spectacular harbors, Hong Kong (the only important free port left in the world today)—a British colony perched like a mouse under the paws of a Chinese dragon. In Calcutta, the dying man on the street still dies without a passing glance in a world too terribly unchanged. Communist swords and scabbards are hidden in many corners of this starving dung-ridden city—ready for action.

Siam seemed too ornate and peaceful for trouble—more or less an extended "The King and I" set. It was not. Here lies the most tempting loot of all for the Communists, because Siam is fat with rice. As a food-surplus country, she trembles at her own potentially lush value to the Reds. Siam has one of Asia's greatest rice-bowls. The Communists need it.

In the Philippine Islands I discussed the food problem — and agrarian reform—with President Quirino. I also got to know quite well the intrepid Magsaysay, their Minister of Defense, who is slowly killing off the Communist Huks right in the very jungles which once were their refuge. I saw Magsaysay twice again when he was in New York recently, and had long talks with him about enforcing land reform. Magsaysay knows this would remove the political teeth from the Huks' bite—they couldn't even hold their ranks together without this political weapon. And he is helping to accomplish this by the bold stroke of *giving* land to the captured Communist Huks!

Magsaysay's meeting of war veterans from the Philippine Islands' neighbors—which started in Baguio yesterday—is an extraordinary cultural and political and military offensive against the Communists. He invited delegates from North Borneo, Thailand, the Malay States, Indonesia, the Philippines and Indo-China to come to this secretly planned session to pool their experiences (in psychological as well as in military warfare) in dealing with the Communists. To keep this conference from being snarled by politics and government, Magsaysay called it in the name of veterans of the last war. Yet, in four instances, the Veterans Organizations sent defense ministers as well as Chiefs of Staff. This is the kind of cold war propaganda-setting the Russians stage so well. I am pleased to see the technique introduced and adopted by *our* side.

Some Americans, I know, are discouraged because after 50 years of American tutelage, the Philippines don't seem to be doing better. But despite the corruption (and it is certainly diminishing) I have faith that the Philippine people have learned the rudiments of democracy and that their progress can be rapid in the next generation. The mere fact that a figure like Magsaysay can emerge is significant. He is much like our cowboy heroes—rushing after political villains instead of cattle thieves. That he was appointed to the second most important post in the Philippine Islands is a good omen. He's fighting an undeclared war on all political hacks and Philippine "mink-coaters." He was hardly a political asset. Yet Quirino gave him one of the hardest if not biggest clean-up jobs in our time.

Magsaysay told me one of his unsung armies is the school-teacher-corps all over the Islands. They teach and even help legislate the principles of democracy to children and their parents (at the little village level as well as in the cities). They are spreading the fact that Magsaysay has the gun poised against corruption, that he intends to force political bosses to give way to honest elections (a prospect that once seemed to require a miracle to most Filipinos). He promises that land reform will be increasingly enforced. There — in a mass of thousands of dedicated school-teachers—is a propaganda corps our information experts ought to embrace. I hope we do.

Our Propaganda Efforts in Asia

A good many years of my life were spent in advertising before I entered publishing. I respect its power and salesmanship—and its remarkable influence on our lives. Therefore, I looked with an advertising woman's as well as an editor's eye on our propaganda efforts in Asia. I was disappointed to see our familiar advertising devices used there, where they neither fit nor fare well against the Asian backdrop. I want to see our advertising talent harnessed and poured into the needs of the cold propaganda war—but I seriously question transplanting the exact sophisticated approaches.

Comic books sell many products and have explained many an idea to Americans (including such diverse items as Christianity and space cadets) but can we be serious when we unleash the comic strip in India? Another instance of transplanting rather than re-interpreting-for-the-market is in the use of American made films sent into backward places in the interior — when we should be using native films with native actors who speak not only the language of the localities but who look disarmingly familiar to their audiences.

We should not only be using each country's own technique (though improving them as we do) but we should use them to repeat and repeat our attitude toward the urgent problems — they are few but terrible—which beset the wretched millions who are prey to Communist promises. The first job — in using each country's familiar symbols—must be to make it clear we want to see land reforms take place—and promptly. The sooner we learn how to do this, the sooner we will get credit, as Americans, for being opposed to any unfair system. And the more effective we'd be in preventing a disproportionate share of farmers' efforts from falling into the hands of landlords. We deserve to be understood on this one paramount point. Everywhere I went, I got the opposite impression: we haven't overcome our bad record in Asia. The Eastern world mistakes our interest as a new imperialism which has merely shifted from "old power" to "new power." In this one failure alone lies the prime proof of Russia's diabolical cunning and success and our immensely complex propaganda problem. It must be shouted that the Russians lie—yet our job is devilish because history is against us. The conflict is tense between the desperate need of us and the fear of us—the suspicion of our motives. To overcome this, deeds—not only words—are the finest form of propaganda. Any progress we make counts: after all, the Communists function as a UNIT; when they are divided, they wilt.

In addition to land reform, the other big propaganda need is to make it clear that we Americans can, and will, support the Asiatics' own efforts to produce more for themselves — another effort I found inadequate. We can show the Far East how to keep themselves but we must show them how in their own terms. I repeat: we've got to start using their media—not "shot-gunning" our misunderstood ones. The Asiatics have fascinating propaganda instruments; they love their shadow plays, story-tellers, and mystical soothsayers, even if we are not quite as enthusiastic about them. We should employ them, and we should use their local artists — instead of our unfamiliar ones. Wherever we can teach illiterates to read simple truths in their own devices and dialects, we can hope to have these illiterates all to ourselves instead of handing them over to the Communists.

Rehabilitation Program Can Be Made to Work

In Asia, where the delicate color-question makes the population look on all whites with suspicion, we must learn to give our help a better complexion. We must "work" with people — and not give any impression of seeming to "order" them to graft our technological efficiency upon their culture from the outside. Our technical assistance must be proffered patiently—and without the slightest condescension. With it must be linked patient, long-range projects like universities, laboratories, hospitals, exchange students. We must preach and promote vocational training to turn

Continued on page 20

*An address by Mrs. Cowles before the Overseas Press Club, New York City, Sept. 18, 1952.

Roadblocks To Nation's Continued Prosperity

By H. E. HUMPHREYS, Jr.*
President, United States Rubber Company

Mr. Humphreys lists as roadblocks to prosperity: (1) unnecessary government intervention in private enterprise; (2) tax policies which destroy incentive; (3) government's failure to recognize true role of profit; (4) instability of dollar; (5) failure of people to accept truth that full production benefits all people; (6) monopolistic union practices supported by government; and (7) widespread misunderstanding of our business system.

At home, we are at that crucial point where we must decide for all time whether we shall speak up and stand up for freedom and opportunity, or whether we shall settle for socialism.

H. E. Humphreys Jr.

Security is desirable, Mr. President, up to the point where we begin to lose more than we gain. But, don't you think it is time we realized that complete security is something that money can't buy?

Moreover, in our frantic scramble to do everything for everybody, we are being forced to give up more than money. We are giving up, piece by piece, the hard-won freedom to get ahead as individuals. This is the freedom which our fathers handed down to us. If we fritter it away, what shall we say when our sons ask what we did with it?

Furthermore, if we strive too hard for collective security, it will slip through our fingers entirely. If we spend too heavily to guarantee health, employment and old-age comfort, then inflation and economic collapse will make those guarantees meaningless.

How far we have gone toward total socialism is difficult to measure. But when we look at the amount of our national income that has been going into taxes, it becomes clear we are moving rapidly in that direction. These figures show that, 20 years ago, we worked only one day in every 23 to pay for Federal Government spending. By 10 years ago, the figure was one day out of each 11. This year we shall work nearly one day out of four to pay Federal taxes.

*From an address by Mr. Humphreys before the Fifth Avenue Association, New York City, Sept. 30, 1952.

How much farther shall we travel toward total socialism by the time our sons are our age? And what will they think of us for leading them down this road—a road which could end in communism?

Mr. President, surely by this time you must know that first of all, I am a father. I am also a businessman. You will need the help of all fathers and all businessmen — in fact, all thinking Americans. I believe I can assure you that American businessmen stand ready to help you face the challenge of true leadership in this time of decision affecting all our sons—affecting our nation's destiny for decades to come.

Today, as a start, let me remind you of the threats to the country's continued prosperity which must be faced by government and business if we hope to maintain our economic strength for the next generation.

In case you are tempted to discount what I have to say as an appeal for special favors for business, let me ask you to examine each proposal in the light of what you honestly believe is best for the American people. That is all I ask.

There have already been far too many appeals to special interests in this country. We have come to a low point in our history if any leader feels he must appeal to man's selfishness or to any other human weakness to get ahead. I'd hate to have my boy think I had to. It is long past time that we all appealed to man's nobility, his integrity, his dignity and his moral courage.

With that thought in mind, let me tell you what I believe is the most important question concerned with the economic health and prosperity of our country and our power to support righteousness throughout the world.

It is simply this: shall we have more government in business or more business in government?

I say this because I can see many major road-blocks in the path of continued prosperity of our country. I'll mention seven. These are the road-blocks that contribute to the feeling of uncertainty about their future which young men share today. Government and business must work together to remove them.

The first road-block to prosperity is government intervention to an unnecessary extent in the free operation of our private opportunity system.

There are two kinds of government relations with business, Mr. President. There is the kind that is necessary, including proper anti-trust regulations.

The other is the unnecessary kind that prevents business from serving people to the best of its ability. The only time the government should attempt to control business is during an all-out war, when scarcities keep competition from exercising its effect on supply and demand.

Under our competitive system, the customer must be the boss. He should decide what products shall be made, and how many, and how much he shall pay for them. Under government control, the customer loses his voice in business. Prices are set at an arbitrary level and quantities produced no longer bear a relation to the demand.

The second road-block in the way of continued prosperity is tax policies which destroy incentive.

Today, the government is draining away the money business needs to build for the future.

The government does this in three ways. It takes away 52 to 82% of a company's profit, while it tries to hold prices down. It does not allow corporations to deduct fair amounts for depreciation in these times of inflation. And it taxes investors so heavily that they lose both the means and the incentive to invest enough to keep industry expanding.

Heavy taxes on corporations encourage some businessmen to be extravagant with other people's money. They figure, "Why worry about spending another few million dollars; if we try to hang onto it, the government will take all but 18% of it anyway." This condition works against the interests of government, investors, customers and employees.

Taxes are essential, Mr. President. The government should collect enough to balance the budget, after cutting out all unnecessary spending. And let's not kid ourselves: all taxes are paid by the customer in the end.

But it makes a big difference how taxes are applied. Heavy taxes on profit work against themselves. They penalize success. They discourage business from serving customers better and providing more and better jobs. They dry up this source of taxes.

Failure of the government to recognize the true role of profit is the third obstruction in the path of prosperity.

The government's exaggerated talk about profits has stirred up resentment against business by labor and customers and the general public.

Surely you realize, Mr. President, that profit is the incentive which makes our opportunity system work. Some of it is paid in dividends as a reward to those people who put up their savings to build plants and, in that way, make more jobs. The purpose of these dividends is to make them want to invest more, instead of spending all they make. The re-

Continued on page 29

Agricultural Control in U.S.

By E. G. NOURSE*
Formerly Chairman, Council of Economic Advisors

Former Chairman of President's Council of Economic Advisors reviews developments relating to agricultural control in U. S., and finds there has been a trend from Voluntarism or Proprietary Management toward Central Planning. Holds neither an aggregative approach to national guidance of agriculture or a centrally-determined allocation of the farmer's part of the national income is desirable, but contends, because farming states hold balance of political power, the price, income and allotment provisions of the Agricultural Acts will prevail.

I take it that the program makers of this conference thought it important that we in the United States should at this time review our own thinking as to national agricultural policies and practices and put this analysis over against the thinking and the programs of those in other countries who have been confronted by more or less similar problems. The title as phrased in the letter inviting me to appear on your program was "The Logic of National Policies for the Promotion or Regulation of Agricultural Production." I have availed myself of a speaker's privilege to rephrase the title. I have intended to preserve fully the spirit and general objective of your program makers. But at the same time, I have thought certain modifications in the title would indicate a little more clearly my line of attack and the scope of my analysis. I can not do better, it seems to me, than begin my remarks by explaining just how I undertook to circumscribe in one direction and to expand in another direction the title as proposed by your program committee.

Edwin G. Nourse

First, then, it seemed to me much too ambitious for me to undertake to expound in any authoritative way the logic of national policies to control or direct the agricultural industry of a country—any country and at all times. As an economist, I am not very favorably inclined to the idea of a "general theory" for any phase of economic life. I shall therefore limit my remarks exclusively to agricultural policy and practice in the United States and primarily to the character and trend of our economic thinking during the last three or four decades.

With my topic thus narrowed in time and space, I then proceed to broaden it a bit as to its functional coverage. The proposed topic mentioned "National Policies for the Promotion or Regulation of Agricultural Production." I feel, however, that agricultural production, agricultural distribution, agricultural finance, and farm family consumption constitute, in a famous American phrase, "a seamless web." I have never made any pretentions to being a "production economist," but for some years specialized in the field of distributive institutions and practices, rural and urban, as they affect the farmer's real income. I have been concerned with the prices and income relations of agriculture as an interrelated segment of the total economy and most recently, in the problems of keeping that economy functioning at a sustained high level of activity and efficiency. That means realizing as fully as we may the great objectives enunciated in the Employment Act of 1946.

Since I did not want my title to run as long as that of a doctor's dissertation, I have condensed all these facets of national policy with reference to the economic phase of agriculture into the phrase "Agricultural Control in the United States." This does not mean merely restraint, stimulus, and direction by official government agencies. It means rather the economic organization of the agricultural process through public and private units—some large, some small. It embraces a set of business institutions, evolved and still evolving out of practical experience; a set of more or less settled and accepted practices of working with and through these institutions; and, finally, the self-control of individuals who, under a system of basic voluntarism, joined with necessary discipline, make the managerial and domestic choices for the rural segment of our society.

It seems to me necessary to make some such statement of the concept of workable control or organizational efficiency in a free society before I can explain properly the significance of the final qualifying word which I have introduced into my title. This word is "ambivalent." If my remarks are to give our members from overseas any real insight into the agricultural life of the United States and perhaps contribute a little to better mutual understanding among our American brethern, it seems to me we must begin by clearly recognizing that there are two definitely divergent, somewhat competitive but—let us hope—ultimately complementary, philosophies of how the agricultural industry of the United States can perform its distinctive functions most efficiently as a segment of our total economy.

On the one hand, we have the logic of economic individualism, embodied in the family unit of economic functioning and the repudiation of governmental direction or artificial inducement in the affairs of agricultural business life. On the other hand, we have the logic of government responsibility for assuring a satisfactory level of farm incomes. This involves (a) the erection by government of productive and distributive structures and practices that would regulate or heavily condition the individual farmer's business activities in conformity with a pattern of economic security, and (b) acceptance by the farmer of this guided way of economic life in lieu of the more venturesome but less secure pattern of life enjoyed or endured by his fathers.

I shall begin by examining the logic of the system of individual enterprise which has been traditional in the United States and is still given lip service by many as "the American way of life."

The Logic of Managerial Freedom

The outstanding feature of the traditional pattern of farm life in the United States is that it was, up to about 20 years ago, as comprehensive and consistent a system of free enterprise as existed anywhere or that could well be imagined. This does not mean that it has been pure and unadul-

*An address by Dr. Nourse at the International Conference of Agricultural Economists, East Lansing, Michigan.

Continued on page 37

How High Can Taxes Go?

By WALTER W. HELLER*
Professor of Economics, University of Minnesota

Contending U. S. and Canada are neither at, nor perilously near, the economic limit of taxable capacity, Prof. Heller stresses factors which are expanding the borders of tax limits. Holds it is inherently not possible to establish the quantity of taxation which represents the economic breaking point. Points out, under heavy government spending, the resulting full employment increases taxable capacity and, because of this, Canada and U. S. can increase national tax levels as much as 10% or 15% and still keep within taxable bounds.

You may be wondering whether the title of this paper, "How High Can Taxes Go?" is addressed to the right question. In the rosy glow of the current fiscal situation in Canada and the current political campaign in the United States, you may feel that the more pertinent question is, "How high can tax reduction go?" On one hand, we find Canada's great Finance Minister, Douglas Abbott, suffering an embarrassment of riches in the form of unexpectedly large surpluses in the Dominion Treasury. On the other hand, we in the United States are being wooed with both Republican and Democratic promises of budget cuts — $40 billion is the highest bid so far—promises which taxpayers are not likely to forget in 1953 and 1954 when well over $5 billion of emergency Federal taxes expire unless reenacted. Perhaps, having pointed this out, I should answer the title question by saying, "Taxes are as high as they are going to go" and having said this, quietly sit down. But I am afraid the Program Committee had no intention of letting me off so easily, with a mere political observation. And I imagine you are afraid that I do not intend to let you off so easily either. And you are quite right.

Dr. Walter W. Heller

When one looks beyond current Canadian surpluses and United States politics to the basic problems that are occupying men's minds, both in lay circles and among the "experts," one can understand why the Program Committee felt the subject of taxable capacity to be so timely. Taxes in the United States, Canada, and Great Britain are at their highest levels in history, barring only World War II; and we in the States, at least, still face substantial deficits and the threat of further inflation. At the same time Congress, after a $15 billion tax effort in 1950-51, rebelled at further increases. Moreover, 17 states have valid petitions before Congress calling for a constitutional amendment to limit the top peacetime rates of income and estate taxes to 25%.[1]

The Colin Clark 25% Limit

Perhaps even more indicative of the deep concern over the level of taxation is the warm reception in many quarters of Colin Clark's 25% limit thesis. The core of his thesis is that further tax increases become self-defeating when they exceed roughly 25% of the national income. Chiefly by impairing the incentives to work and invest and by weakening employers' resistance to wage increases and wasteful business spending, taxes beyond this critical limit undermine production and promote inflation. Mr. Clark also cites a rather nebulous "transfer of allegiance" to inflation on the part of business and government leaders at the sound of the 25% gong. Finally, he cites a vast array of tax and income data for many countries in an effort to provide statistical underpinnings for his theory.[2]

In spite of the wide attention Clark's idea has gained—and although total taxes in the United States now exceed his critical limit by 5 or 6 percentage points —I do not intend to weary you with a point-by-point rebuttal of his thesis. I hope you will permit me to dispose of it largely by reference, especially since, in doing so, I am relying on what will certainly be accepted here as unimpeachable authority — past, present, and future officers of the National Tax Association, together with participants in the program of the Forty-Fifth National Tax Conference.

Last January, at the close of a hearing on Federal fiscal policies before the Congressional Joint Committee on the Economic Report, Senator O'Mahoney, its Chairman, stated it as his understanding that "the Colin Clark theory of a 25% limitation on total income to be diverted by taxation is not supported by this panel." There was no dissent from the panel of eight, which included President Buehler of the National Tax Association, Past President Carl Shoup, yesterday's Round Table participant Richard Musgrave, and the present speaker. Mr. Buehler had underscored his position earlier in the hearing by stating, "Certainly we have not reached the economic limits to taxable capacity." Mr. Musgrave referred to Clark's thesis in terms of "some imaginary notion of taxable capacity or a 25 or 30% limit to our tax efforts" and dismissed it with, "There is no such thing." My time before the Committee was spent wearying them with the point-by-point rebuttal from which I am sparing you.[3]

Just to keep the whole thing within the family, Richard Goode, nominee to the Executive Committee, is reviewing the foregoing testimony on Clark's thesis in an article to appear in the September "National Tax Journal." Last, but not least, another participant in yesterday's Round Table, Mr. Pechman, has just published an article demolishing, statistic by statistic, the evidence which Clark uses to support his thesis.[4]

Having read the obituary of the 25% thesis, I hasten to add that I fully expect its resurrection, or at least its reincarnation in some other form in the not-too-distant future. Mr. Clark is hardly one to succumb to the weight of opinion, even from unimpeachable authorities. After he leaves his temporary refuge in Pakistan and takes up his new research post at Oxford University, we can expect that his insight, logic, and rhetoric will once more be turned to this problem.

It is worth adding, by the way, that even if neither his data nor his arguments succeed in establishing the 25% rule-of-thumb, it does not follow that there are no economic limits to taxation and that they may not be found farther along the trail he has blazed. Perhaps, like the fiscal prophets of 20 years ago, who made the mistake of answering the question, "How high can the debt go?", he has stubbed his toe on an excess of specificity. You may recall—I hope not painfully—those confident predictions of economic collapse and bankruptcy at $50, $60, or $70 billion of public debt. The fact that the debt swept right past these limits to a level several times as high does not prove that no limits exist—it merely suggests that, as in the case of the 25% tax limit, the limit is much more remote and of a considerably different nature than we had thought.

The Nature of Taxable Capacity

The discrediting of the fiscal Savonarolas of the thirties and the attacks on Clark's theory fit in with a trend toward appraisal of fiscal capacity in relative terms. Increasingly, analysts avoid the more satisfying manifestos setting the limit of taxes at x dollars or x percent of national income in favor of the less satisfying but more enduring appraisals in terms of "it depends." What we get is not a tax traffic light with switches from green to orange to red at specified dollar or percentage levels, but rather the guarded and qualified type of appraisal recently made by Professor Dan Throop Smith, of the Harvard Graduate School of Business Administration, to wit: "*In general*, I do not believe that recent tax increases or further increases up to $5 or $10 billion, if judiciously made, would significantly reduced activity in this country under existing conditions through adverse effects on incentives for personal activity."[5] Notice the careful hedges, though notice also that he had the courage to cite a figure which would not exhaust our taxable capacity, though I am sure he would not presume to name the one which would.

Also representative of the "it depends" approach is an article by Lewis Kimmel of the Brookings Institution who defines taxable capacity as "The capacity to raise revenues without extreme interference with productive activity and the operation of the economy" and then adds, "It is not possible, however, to determine by objective tests or a mathematical formula the point at which taxable capacity would be exceeded."[6] It is increasingly recognized, then, that taxable capacity can be assessed only in terms of several other quantitative and qualitative factors. By way of summary of the major factors, one can say that the limits to taxation depend mainly on:

(1) The level and composition of government expenditures.

(2) The size and distribution of a nation's income and wealth (as related to the size and distribution of contractual claims against it).

(3) The nature of economic motivation and the flexibility of private economic action.

(4) The composition of the tax system and the structure of particular taxes.

(5) The state of the art and science of tax administration and its translation into practice.

(6) The degree of taxpayer resistance to, or acceptance of, tax measures.

In view of the limitations of time, I can hardly hope to cover all—or, for that matter, any—of these factors adequately. Therefore, I shall select for comment a few considerations which either appear to have been neglected in previous discussions or which seem to be especially relevant to the problem of how high taxes can go today.

Taxpayer Reactions

Let me start with a few words about the sixth factor in the above list, namely, taxpayer resistance. One cannot dismiss this simply as a political factor falling outside of our purview, since it is so closely interrelated with several of the other limiting factors. For example, it is closely related to government spending in terms of whether taxpayers accept the objectives and policies of government. It is also tied to tax structure and administration in terms of taxpayer confidence in the fairness of the tax system and the even-handedness of its administration.

Beyond this, the problem of taxpayer resistance is largely a conflict between the individual's and the community's point of view. A lot of the emotional content of the subject of taxable capacity—the high blood pressure it generates—arises out of looking at the problem primarily through the eyes of the individual taxpayer. From where he sits, higher taxes (on him) always appear worse than lower taxes. Since the taxes he pays don't directly affect the quantity of services he gets from government the higher tax always leaves him worse off, as an individual, than he was before.

He may react in one of three ways. First, he may try to restore his income to its previous level. In this case, he either has to work harder and longer, or save more and consume less, or switch some of his funds from safer low-yielding investments to riskier high-yielding investments. Second, he may decide that since the tax has reduced the price of leisure, he will take more of it and thus accept an even lower money income (coupled perhaps with a reduction in his saving out of current income). A third possibility, of course, is that he is working, saving, and risking not mainly for money but for the love of the game, or recognition in his occupation or profession, for prestige in the community. In this case, taxes are not likely to affect his productive efforts either way.

Let me say in passing that one of the answers to Colin Clark's incentive arguments is found in the preceding paragraph. If taxpayers respond to increased taxes by working harder, saving harder, and risking more (the so-called "income effect," a function of average or effective rates), they will add to output, not reduce it. Only if they decide that the added tax tips the balance in favor of more leisure and less work (the

Continued on page 28

*An address by Prof. Heller at the 45th Annual Conference of the National Tax Association, Toronto, Canada, Sept. 10, 1952.

1 According to the staff of the House Judiciary Committee, 29 state legislatures have acted favorably on this proposal, but owing to rescissions, vetoes, and defects in some of the measures, only 17 petitions remain in effect. *Wall Street Journal*, Aug. 13, 1952. See also "Constitutional Limitation on Federal Income, Estate, and Gift Tax Rates," Print of the Congressional Joint Committee on the Economic Report, Washington, D. C., 1952; and the papers of Clarence Heer and L. L. Ecker-Racz in the 1951 "National Tax Association Proceedings," pp. 283-297.

2 Clark develops various aspects of his thesis in the following writings, among others: "Public Finance and the Value of Money," *Economic Journal*, December, 1945; "The Danger Point in Taxes," *Harper's Magazine*, December, 1950; and a letter published in the Hearings before the Joint Committee on the Economic Report, January, 1952 "Economic Report of the President," Jan. 31, 1952, pp. 315-317.

3 *Ibid*, pp. 320-325. The statements quoted above will be found on pages 358, 328, and 311, respectively.

4 Joseph A. Pechman and Thomas Mayer, "Mr. Colin Clark on the Limits of Taxation," *The Review of Economics and Statistics*, August 1952, pp. 232-242.

5 Dan Throop Smith, "Note on Inflationary Consequences of High Taxation," The Review of Economics and Statistics, August 1952, p. 245.

6 Lewis H. Kimmel, "Our Tax Burdens and Taxable Capacity," Annals of the American Academy of Political and Social Science, November 1949, p. 154.

Fall Outlook for Industry And Trade Promising

Most business indicators rising sharply with prospects that pre-steel strike levels of production will soon be surpassed. Commodity price trends stable or gradually rising. Crop outlook viewed as favorable.

[From "Business Bulletin" for September issued by LaSalle Extension University, a Correspondence Institution, Chicago]

Industrial production is increasing rapidly after the slump during the summer when the interruption in steel output brought about a reduction of close to 15% in the general level. If the present trend continues for a few more weeks the rate of industrial activity will not only be brought back to that which prevailed earlier in the year but also be moving steadily toward a new peak which may be reached before the end of the year. The vigor of the rebound has given a convincing demonstration as to the strength of the demand for products and the extent of the productive capacity as well as the amount of raw materials that are available to meet that demand. Most of the major trends are upward and appear to be strong enough to continue for some time —at least throughout the remainder of this year and the early part of next year.

Supporting Forces Still Strong

Although the loss of close to 20,000,000 tons in steel production has had serious effects in many industries and will continue to hamper operations for some time in the future, the net effect is proving to be less disturbing than was generally expected. Changes have been greater in inventories than in the rate of industrial production and more of current steel output will go directly into manufacturing than was the case throughout much of the last year or more. Unless work stoppages in other lines such as coal or machinery should interfere with present schedules materials will be adequate to maintain a very high level of industrial production.

The predominant supporting influences for business and industry are powerful and some of them are becoming stronger. The major ones are: (1) gradually increasing demands by domestic consumers whose incomes are rising and whose attitudes are showing a greater inclination to buy in larger volume; (2) expenditures by the Government are steadily increasing at a more rapid rate than the rise in the amounts received from taxpayers; (3) record spending by business concerns for new plants, additional equipment, and machinery; (4) enormous shipments abroad which conitnue to run well above $1,000,000,000 monthly; and (5) large volume of construction of all kinds, which in spite of high costs, is running well above last year and establishing a new record. As long as these conditions prevail in the demand for goods and services a high level of business activity is assured. Any shortages of steel or other raw materials are likely to be of very limited and temporary effect on the level of total industrial activity.

New Orders Again Rising

Volume of new orders, especially those received by manufacturers, is an excellent indicator which reflects the attitude of businessmen toward the future conditions in their industries. Although these orders have been coming in at a slightly lower rate than the very large amounts a year ago, they have been rising in recent weeks and again are running ahead of current production. Unfilled orders have, therefore, reached a new peak both in total amounts and in comparison with sales. They are now equal to manufacturers' sales for a little over three months. Especially significant has been the increase in the orders for non-durable goods which represents to a considerable extent the expansion in consumer buying. Orders for durable goods remain high, of course, because they represent not only the increased buying by consumers but also the expanding defense program for military supplies and equipment.

One aspect of the situation with regard to new orders suggests caution for the distant future, although it is not likely to be significant for many months. New orders for machine tools remain close to 40% less than they were a year ago, even though they have recently been increasing to the highest amount of this year. The index of orders, as reported by the National Machine Tool Builders Association, is at 350 as compared with 100 for the average of the years 1945 through 1947. At the peak last year it was over 600. In 1949 before the defense program was started it was at a low of less than 50. Unfilled orders for machine tools are equal to about 12 months' shipments at the current rate. A year ago they were equal to about two years' operations at the lower rate which then prevailed. A falling off in the orders for machine tools indicates that a substantial part of the expansion program for additional plant equipment is being completed or that the time of reduced capital expenditures is less distant than it was previously. A slowing down in the rate of business spending for new plants and equipment is nearly always accompanied by at least a moderate decline in general business activity. Although that time is apparently still far in the future it will be kept in mind in long-range business planning.

Somewhat the same situation prevails in another major segment of industry, that of railroad equipment. Unfilled orders for locomotives and freight cars have been declining for considerably more than a year and new orders continue to be less than current production. The number of locomotives put into service this year and the number of freight cars completed have been about the same as last year and production remains quite stable. Unfilled orders are large enough to maintain the present rate of production for about 15 months.

These two examples may provide a fairly reliable clue as to possible future trends in business. Some time within the next year a considerable part of the present contemplated spending program for equipment and plant expansion will have been completed, and not so much stimulus can be expected from that source as during the last two years. Total spending for these purposes remains large, of course, and estimates made by the Securities and Exchange Commission and the United States Department of Commerce indicate that expenditures will be over 5% higher this quarter than they were a year ago. Increases in expansion programs by the public utilities and by companies making military equipment are expected to offset the falling off among some other industries.

Construction Remains at Peak

Expenditures for new construction have continued to rise steadily in spite of restrictions on credit, high costs, and reduced supplies of steel. Recent heavy construction has been kept going by using stocks of steel which had been built up previously. Unless inventories can be replaced soon the impact of the interruption in steel production will be felt this month and there may be some temporary declines. Last month expenditures were over $3,000,000,000, an increase of 10% over those of a year ago. For the first seven months, they were 5% larger than in the corresponding period last year and equal to those of the entire year five years ago.

The increase over last year was due entirely to outlays by the Government, whose spending for construction was 24% greater, while private spending declined 4%. Two-thirds of the total was spent by private builders as their spending accounted for $12,000,000,000, as compared with $6,000,000,000 spent by the Government for this purpose. About half of the private construction consists of housing. Total engineering construction so far this year, as reported by the "Engineering News-Record," has been about 2% higher than it was during the corresponding period last year. In the field of public construction, State and municipal spending has been lagging behind last year, while that of the Federal Government has greatly increased.

The number of new dwelling units started has been steadily rising this year, although activity has been lower than it was during the corresponding period last year. The monthly average has been just under 100,000 units, a decline of 4%. It was larger than in any year except 1951. Additional stimulus to residential building will result from the removal of some credit and financial restrictions. Demand for additional housing is still large and vacancies in most cities remain far below normal. Yet demand is becoming less intense than it has been for many years and new houses are being put up in larger numbers than new families are being formed. Hence the backlog of demand is being reduced even though no surplus is in sight for some time.

The volume of construction is also a most significant indicator of general business trends, both because the amounts involved in building are large, and because money spent on this purpose affects large numbers of other businesses directly and indirectly. Never has the country had a serious recession while building activity was high nor in peacetime has there been a period of prosperious conditions when building activity was low. A marked decline in building has often been a reliable indicator of a later widespread falling off in other fields of business but none can be expected as long as construction is establishing a new record as it is now doing. At the present time the high level of construction is a significant favorable sign pointing toward good business conditions for some time to come.

Closely related to new construction and capital expenditures is the volume of new financing by corporations. This financing so far this year has been larger than it was last year, even though corporation profits have declined. Corporations have raised more than three times the amounts which they did during the prewar years. Not only are these sums large in amounts, and thus stimulate business when they are spent, but also they reflect the widespread confidence which corporation executives and boards of di-

Continued on page 41

SEC Adopts New Registration And Prospectus Rules

Publishes text of Rules 132, 414, and 431 relating to identifying statements which may be used in distribution of new issues before release of the prospectus. Donald C. Cook, SEC Chairman, issues explanatory statement.

The Securities and Exchange Commission, on Oct. 1, released the texts of certain rules and policies relating to transactions affecting new security issues under registration with the Commission, which provide for a "waiting period" between the filing of a registration statement and its effective date. The new rules are intended to facilitate the distribution of securities by providing timely information to investors while awaiting the effective date of prospectus. Thus, under the new policy of the Commission, underwriters and dealers will be permitted and encouraged to give out certain information in a brief "identifying statement" to prospective customers by advertisement, by newspaper, postal card or any other medium. The new rules become effective Oct. 27.

Donald C. Cook

In connection with the new rules, Chairman Donald C. Cook of the Securities and Exchange Commission issued the following statement:

"The adoption of these new rules constitutes a step of major importance in the administration of the Securities Act of 1933, and should result in substantial benefits both to the investing public and to those who participate in the distribution of securities registered with the Commission.

"The fundamental objective of securities registration is to provide disclosure to investors of pertinent financial and other information concerning securities being offered for public sale, so that investors may reach an informed judgment as to their worth. To that end, the law requires the delivery of the statutory prospectus to purchasers of securities and to persons receiving written offers through the mails. It also provides a 'waiting period' between the filing of a registration statement and its effective date, the primary purpose of which is to permit widespread, public dissemination of the registration disclosures before the effective date of the statement, prior to which time no offers or sales of the security may be made. In fact, the law specifically prohibits any 'selling activity' during the waiting period. Despite previous attempts by the Commission to encourage a wider distribution of the prospectus during the waiting period, underwriters and dealers have been fearful that their efforts in this respect might be regarded as violating the prohibitions against selling activities. This has tended to defeat one of the purposes of the waiting period. As a consequence, all too often an investor becomes committed to the purchase of the security, through personal interview, telephone conversation or otherwise, before he comes into possession of a copy of the prospectus.

"In the rules announced today, we believe we have evolved a practical solution to these problems which should both facilitate the distribution of securities and further the objective of providing timely information to investors.

"In the first place, the new rules —for the first time—will permit, and in fact foster, the advertisement, by newspaper, postal card or other medium, of a brief 'identifying statement' giving certain limited information with respect to the security. This statement is intended to provide a 'screening' device by means of which dealers and others can seek out persons sufficiently interested in the security to request a copy of the prospectus. It can be used either by the issuer or underwriter, or by dealers who expect to participate in the offering of the securities; and its use will be permitted either during the waiting period or after the effective date of the statement. It is intended of course that copies of the prospectus will be made available promptly to those requesting them.

"To foster public dissemination of the registration disclosures through distribution of the identifying statements and the red-herring prospectus, the Commission also will decline to accelerate the effective date of registration statements unless it is satisfied that there has been timely distribution of the identifying statement to each underwriter and dealer who may be invited to participate in the distribution, supplemented by sufficient copies of the prospectus to meet reasonable demands therefor.

"For the prospectus best to serve its intended purpose, it must be a brief and understandable document. To that end, the Commission has adopted a new policy governing the acceleration of the effective dates of registration statements, to wit: unless the Commission is satisfied that there has been a *bone fide* effort to make the prospectus 'reasonably concise and readable, so as to facilitate an understanding of the information required to be contained in it,' the Commission will decline to accelerate the effective date of the statement.

"The new rules are the result of many years' experience in dealing with the problems here involved, as well as extended consultations with industry representatives. In addition, the Commission has had the benefit of detailed comments and criticisms directed specifically to the proposals which formed the basis for the present rules, which were publicly announced last July 10th, as a result of which numerous revisions were made to make the rules more workable. We shall do everything within our power to make them operate smoothly—with maximum benefits to investors and a minimum of interference with the securities distribution process. With the full cooperation of issuers, underwriters, and dealers, we have every expectation that we shall be successful."

Rule 132

The text of Rule 132 is as follows:

Rule 132. **Definition of "Offer to Sell," "Offer for Sale," "Attempt or Offer to Dispose of," and "Solicitation of an Offer to Buy" as Used in Section 2 (3) in Connection with Certain Identifying Statements.**

(a) General provision. For purposes of Section 5 only, sending or giving to any person or publishing an identifying statement, and communications between underwriters and dealers reasonably related to the contemplated use and distribution of an identifying statement and proposed form of prospectus, shall not constitute an

Continued on page 35

Reserve Banking in A Dynamic Economy

By M. S. SZYMCZAK*
Member, Board of Governors, Federal Reserve System

Reviewing recent basic changes in reserve banking practices, Gov. Szymczak points out for more than two decades we have had varying degrees of financial abnormality to which reserve banking operations had to be adjusted. Finds readjustment to postwar conditions entailed carrying over war-emergency banking practices, particularly in field of credit restraint. Says restoration of flexible reserve banking has not been easy, but much has been accomplished under a high level of industrial output and employment.

It is my purpose to review with you basic changes in reserve banking practices. The past two years have provided a reorientation of these practices that has been a matter of considerable public interest. Since you are responsible for supervising the State chartered units in our commercial banking system, you have a special interest in reviewing credit and monetary policy because it affects financial institutions in your State whether or not they are members of the Federal Reserve System.

M. S. Szymczak

Two Decades of Financial Abnormality

For more than two decades, our economy has experienced varying degrees of financial abnormality. The credit crisis of the late Twenties and the early Thirties was followed by a prolonged depression of unprecedented severity. As a result of this background, lenders and borrowers during the latter half of the Thirties were timid in reexpanding credit. At the same time, international forces caused a very large flow of gold into this country. This combination of factors resulted in the accumulation of substantial excess reserves by our banking system as a whole.

Reserve banking operations had to be adjusted to this abnormal banking liquidity as well as to the desirability of reestablishing a financial climate favorable to credit expansion and economic recovery. In practice, there was a virtual disappearance of member bank rediscounts and a minimum volume of open market operations. Such changes in the open market account of the Federal Reserve System as were undertaken in this period were mainly associated with the maintenance of orderly conditions in the market for Government securities and with adjustments in member bank reserve requirements under new legislative authority enacted in the early Thirties.

The first half of the Forties ushered in World War II with its problems of financing huge Government deficits. The financial headaches created by the wartime deficits carried over into the last half of the Forties.

During the war period, Treasury requirements for money to finance global war deserved and received primary consideration at the calculated risk of substantial wartime credit and monetary expansion. You will recall that the pivotal reserve banking policy was the maintenance of a stable interest rate structure for the public debt. The market structure of interest rates had as its principal anchor a ⅜% rate on 3-month Treasury bills and from that rate the structure graduated upward to a 2½% rate on long-term Treasury bonds. Working with the Treasury, the Federal Reserve during war years used every means at its command to facilitate the Government's financing through the credit and money market. This involved adjusting reserve requirements, setting preferential discount rates for member bank advances secured by short-term Government obligations, and carrying on extensive open-market operations to support the established pattern of market interest rates.

Readjustment to postwar conditions entailed carrying over some of the reserve banking practices adopted to meet the war emergency. The transition from a war to a peacetime economy required many adjustments but reorientation of discount and open market operations could take place only gradually. In the Government securities market, because of the sheer size of the war-accumulated public debt, the dominant focus continued to be the maintenance of orderliness and stability, and this pattern persisted into the first year of the current defense emergency. The nature of the inflationary threat posed by the defense emergency ultimately brought about a joint decision by the Treasury and Federal Reserve to conduct reserve banking and debt management operations so as to minimize further monetization of the public debt.

Supplemental Measures of Credit Restraint

These periods of extreme financial abnormality brought many departures from operating procedures worked out during the formative period of the Federal Reserve System. To prevent the development of inflationary pressures from excessive credit expansion, it became necessary to adopt various supplemental measures of reserve banking policy.

Throughout World War II, the use of credit for purchasing and carrying stock exchange securities was closely watched. Margin requirements, which had been subject to regulation since 1934 with a view to lessening the impact of stock market speculation on credit and banking conditions, were eventually increased substantially above prewar levels. The Board's Regulations T and U governing margin requirements have been at a 75% level during most of the postwar period.

Regulation of consumer credit terms—both as to amount and maturity of new credit contracts—was another supplementary device in use during a substantial part of the past decade. First introduced in 1941, the regulation of consumer credit under Regulation W applied during the war to charge accounts, instalment sales of a comprehensive list of consumer goods, and instalment and single-payment loans. During the postwar period, it was limited to the most volatile portion of this credit — the instalment segment. As you know, the most recent authority of the Board of Governors to regulate this type of credit lapsed on June 30 of this year.

In 1950, a third type of supplementary credit instrument was authorized, namely, regulation of credit terms on loans to finance new residential and nonresidential construction. The bulk of real estate credit is in the form of home mortgage debt which has roughly tripled since the end of World War II, rising from about $19 billion to approximately $57 billion at the present time. In view of mandatory provisions of certain amendments to the Defense Production Act adopted during the last session of Congress, this regulation was suspended two weeks ago. I should like to express the appreciation of the Board for your splendid cooperation in helping us to introduce, explain, and enforce both these Regulations.

These particular devices affected only selected credit areas and, hence, were only partial supplements to instruments which affected the availability and supply of credit generally. These limitations of application and effectiveness led to considerable use during the past decade of the authority to change member bank reserve requirements. During war years, changes in reserve requirements related primarily to war financing needs. In the postwar period, they were used both to offset the effects on bank reserve positions of reserve banking support of the Government securities market and to affect directly the liquidity position of banks.

You may recall that the postwar use of the reserve requirement instrument was accompanied by extensive study and discussion of supplemental reserve requirement proposals, such as a plan for holding supplemental reserves in short-term Government securities, another for holding reserves equal to deposits in excess of a specified amount, and still another for increases in reserves related to bank loan expansion. While these proposals may now be largely of historical interest, they represented efforts to find substitutes for traditional methods of reserve banking at a time when these methods were not wholly effective because of the necessity for reserve banking support of the market for Government securities.

Restoration of Flexible Reserve Banking

After more than a decade of departure from reserve banking procedures developed earlier to deal with credit and monetary problems, readjustment to these procedures has not been easy. There are some who have complained that the pace has not been fast enough, that we have been crawling, when we should have been running. There are others who have doubted the wisdom and effectiveness of the steps which have been taken. Nevertheless, readjustment has gone forward step by step and accomplishments to date in restoring responsive credit and monetary operations along traditional lines have exceeded the expectations of many.

One of the major difficulties in making the transition has been caused by the size and composition of the Government debt. Still another important consideration has been the delicate economic balance of the postwar period in which there have been substantial risks that abrupt and far-reaching changes in reserve banking operations might tip the scales too far in one direction. Finally, there has been the problem of credit and money market reorientation to changed reserve banking procedures.

Discontinuance of the wartime preferential discount rate on advances to member banks secured by short-term Government securities in 1946 marked the beginning of postwar reserve banking transition. Then, in combating postwar inflationary pressures, support prices on short-term Government securities were gradually lowered; the discount rate was raised in successive steps; and reserve requirements were tightened close to statutory limits. As I observed earlier, open market operations in this period, in addition to functioning in general support of the Government securities market, also served to facilitate banking adjustments to higher reserve requirements.

By 1949, economic developments pointed up the fact that inflationary pressures resulting from the war were beginning to lessen. The major portion of pent-up demand of both business and consumers had been satisfied. In recognition of this easing of inflationary pressures, the Federal Reserve moved to increase the availability and use of credit by relaxing terms on instalment and stock market credit and later by reducing reserve requirements and adjusting open market operations accordingly.

Credit and monetary action in 1949 helped to cushion economic recession and to set the stage for recovery. During the first half of 1950, recovery gained full momentum.

Impact of Korea

The final stage in the readaptation of reserve banking operations was precipitated by new inflationary pressures inherent in the full-scale defense program which this country embarked upon after the outbreak of hostilities in Korea. The prospect of a garrison economy for an extended period of time required a thoroughgoing review of all financial measures which could be brought to bear on inflationary forces. It was obvious that, if these pressures were to be held in check, primary reliance would have to be placed on measures curbing inflationary pressures at their source. This approach increasingly involved a coordinated program of fiscal, debt management, and credit and monetary policies.

Of prime importance in this program was maintaining the defense effort as long as possible on a pay-as-we-go basis, thus avoiding a fundamental mistake of World War II financing. The maintenance of a balance in the Government's cash accounts throughout 1951 and the first half of this year shut off what could have otherwise been a substantial source of inflationary pressure.

In March 1951, the Treasury and the Federal Reserve took a major step in coordinating debt management and credit and monetary policies in such a way as to assure successful financing by the Government and at the same time to minimize the monetization of the public debt. A conversion offer carried out at that time for the two longest-term restricted bonds substantially reduced the amount of Government bonds in the market and paved the way for discontinuance of Federal Reserve purchases of such bonds in support of their prices.

Primary Instruments of Reserve Banking

Emergence of a flexible and self-sustaining market for Government securities was a vital development in reestablishing a more normal pattern of reserve banking operations. It has necessitated a full-scale review of the methods and techniques of open market and discount functions to determine how the credit market can operate smoothly with minimum intervention by the Federal Reserve System and without monetization of the public debt. This review has involved consideration of such questions as: What are the rules of the game for reserve banking in a flexible credit market? Giving account to the generally accepted goal of economic stability at high levels of output and employment, how are reserve funds most effectively supplied to the market to meet the changing credit needs of commerce and industry? What does this objective mean with respect to the use of open market and discount operations? With respect to changes in reserve requirements? With respect to margin requirement on stock market loans? How can the Government's borrowing be best accommodated in a flexible market?

All those connected with financial markets—the Reserve System, commercial banks, investment banking houses, security dealers, savings institutions and investors as well as borrowers—are in the process of adjusting their operations to the fact of a self-sustaining credit market. They must reacquire a body of market experience under varying supply and demand conditions on which to base operating decisions.

The Secretary of our Federal Open Market Committee, W. W. Riefler, has recently pointed out that reserve banking experience during the Twenties indicated that a combination of responsive discount and open market operations was an effective means of regulating the availability and supply of

Continued on page 18

*An address by Mr. Szymczak before the 31st Annual Convention of the National Association of Supervisors of State Banks, Baltimore, Md., Sept. 24, 1952.

Continued from page 10

Challenges Confronting the Nation's Savings Banks

since 1933. Nearly all of these challenges would fall under the heading of competition of one form or another. Let us look at some of these challenges.

Most savings bankers are extremely conscious of the competition with the savings and loan institutions, but very few give much consideration to their competition with the insurance companies. Yet, the fact is that the insurance companies, because of level-premium, endowment and annuity policies, are the largest single depositary of the savings of the public. The total assets of the life insurance companies are in excess of $70 billion; moreover, in recent years they have grown at a very rapid rate.

The Challenge of the H Bonds

Savings bankers with real self-sacrifice patriotically pushed the sale of E bonds to help win the war. Then, they continued to push their sale to "help win the peace." Now, it seems that they are expected to continue the sale of E bonds indefinitely and, in addition, the sale of H bonds, and any other bonds that the Treasury may decide to issue to secure the very savings that savings banks were designed to attract and invest. This direct government competition for savings has become a permanent fixture of our financial system and you will have to live with it. But, it seems highly unfair to expect you to encourage and subsidize it at the expense of the interests of your own institutions.

In connection with this competition, don't underestimate the H bond. As it becomes better known to savers it will undoubtedly prove a powerful magnet in attracting time and savings deposits. Although it carries a penalty for the first six months, thereafter it pays 2½% semi-annually for 3½ years, and slightly more than 3.4% for the five years and eight months that follow. This will be "strong medicine" when interest rates start to decline, as they surely will in the future!

The Challenge of the Pension Funds

The serious challenge Social Security offers savings banking has been largely obscured by the great monetary and credit expansion that has been under way nearly continuously since the original legislation was passed in the '30s. More recently, private pension and profit-sharing plans and the various methods of deferred executive compensation which have been inaugurated, pose a further challenge to savings banking. As you know, employers and employees are now setting aside $3.5 billion each year from earnings for Federal Old Age pensions, and the private pension and profit-sharing plans add another $2.5 billion, so that a total of some $6 billion is being saved through non-savings-banking channels.

The Callenge of the Heavy Taxes on Savers

The serious challenge of heavier and heavier taxes on savers has been largely hidden by an expanding economy of recent years, with its succeeding rounds of wage increases and its escalator provisions and high levels of employment. But, the fact is that the tax burden, particularly the indirect, hidden burden, has become so heavy that saving now requires dedicated effort and real sacrifice. Your savers may not know that, according to the Tax Foundation, there are 150 different taxes included in the price of a woman's hat and 116 different taxes wrapped up with each man's suit of clothes, and so on, but they know the money goes! This tax squeeze reduces consumer buying power and, thus, directly hits saving.

The Challenge of Higher Operating Costs

The challenge of ever higher operating costs is an old one. Unfortunately, little can be done to control most of these costs; but the rate paid on deposits, which may be viewed as a cost from an operating standpoint, can be controlled. With this in mind, the competitive increase in recent months of dividend and interest rates paid savers in many areas should be viewed with concern. Certainly, underlying interest rates in the capital and money markets did not increase enough to warrant the boosts savings banks made in some states.

To the extent that earnings based on sound long-term banking considerations permit, such increases are, of course, justifiable. But strength should not be sacrificed for competitive considerations under any circumstances. This is doubly true when the long-term outlook is for economic uncertainty and declining interest rates.

The Challenge of Personnel

Probably the greatest challenge of the many facing savings banking today is that of personnel, particularly at the executive levels. Salaries must be adequate to attract young men and women of sufficient ability to meet the other challenges I have outlined. Obviously, if savings banking is to hold its own in the competitive struggle, it must have its share of the available brains. Any other policy dooms any undertaking, no matter how meritorious or how noble.

With this economic imperative in mind, savings banks trustees and directors should carefully weigh salary scales—and where they find savings bank officers making less than truck drivers something had better be done about it!

Conclusions

My conclusions are that savings banking faces the greatest challenges of its long career of service in the cause of thrift. Only organized savings banking can find the answers to these challenges.

You may ask, "Why do you point them out, if you don't have the answers?"

In reply, may I say that the first thing to do about any problem is to recognize its true character—as the old saw goes, forewarned is forearmed.

The second thing is to devise a socially defensible, economically sound program of action.

The third thing is courage, diligence and competence in executing the program.

As it is in these very things that savings banking has always excelled, I am confident that these challenges of today will be successfully met, and that savings banking will go on to an ever greater future of service to all.

Joins Walston, Hoffman

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—Robert Dopyera is now with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

General Business Conditions Favorable

Business Survey Committee of National Association of Purchasing Agents reports industrial production up sharply in September, and new orders exceed declines by 2½ to 1.

A composite opinion of purchasing agents who comprise the National Association of Purchasing Agents Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Company, Division of Olin Industries, Inc., New Haven, Conn., is that general business conditions are good. Production is sharply up again and new orders exceed declines 2½ to 1. Prices are creeping up after the August upswing, considered only slightly inflationary. Inventory trend is changing from decline to leveling off at low point. Employment is up, due to rapid steel recovery and holiday merchandise demands. Buying policy is even more conservative, within a 90-day range. Little confidence in price structure; short-range production schedules and easing availability of most materials support the cautious view of the markets.

Robert C. Swanton

Steel buyers, taking a second look at the effect of the steel strike on their operations, conclude that the first estimate of extended shortages was greatly exaggerated, as the recovery from the strike is progressing much more rapidly than first anticipated. Forty seven per cent report few if any current steel difficulties. Forty four per cent more estimate an easy condition by the year end. Only 9%, compared to 42% last month, visualize critical shortages running into the second quarter of 1953.

Pointing to the many items now selling below ceiling prices, considering defense production is near its maximum rate and that many basic commodities, including steel, are in easing supply, Purchasing Executives express the predominant opinion that the time has come to release both price and material controls—let business and prices find their levels under free competitive conditions. Industrial business is expected to remain good through the middle of December. Beyond that, there appears to be no overall definite pattern.

Commodity Prices

The September price movement is up, though at a creeping pace as compared to the sharp upswing in August. Seasonal changes and OPS allowable increases account for most of it—considered to be only slightly inflationary. Sellers of fabricated materials, testing the markets to determine an acceptable price level, are finding keen competition. Viewing the large number of items selling below ceiling prices, Purchasing Agents are of the opinion that all price controls should be eliminated. Believe a resulting realistic price structure, based on supply and demand, would be most beneficial to all business.

Inventories

The heavy industrial inventory reduction trend reported in the past four months has eased up a bit in September. While the overall picture is one of decline, more are leveling off at the low goals attained. Some report filling in the soft spots. With defense production near its maximum rate, steel recovering at a rapid pace and easing availability of many basic materials, purchasing men are about unanimous in their opinion that material controls do not serve any good purpose and should be released. At present high prices and short-range commitment policy, no speculation in commodities would result.

Employment

Employment is up again, as layoffs are recalled to man the increased production schedules required for the upswing in new business during the past two months.

The pressure of holiday goods is having the usual seasonal pick-up in employment. Increasing steel receipts are creating demand for related items. Labor uneasiness is increasing as a result of steel and coal wage adjustments. Many strikes are noted, but nothing of national importance.

Buying Policy

Despite production and order book pickup, the policy of forward commitment continues predominately within the "hand-to-mouth" to 90-day range, with more and more falling into the 30- to 60-day brackets. Lack of confidence in prices, availability of most materials and the close range of production schedules are the causes of this very cautious buying policy. While good business is forecast into December, no definite pattern is now apparent beyond the year end.

Peet, Gould, Turner Directors of Firm

Edwin F. Peet, President of Burns Bros. & Denton, Inc., New York, Jay Gould and E. W. Turner have been elected Directors of Burns Bros. & Denton, Limited, Toronto. Mr. Peet and Mr. Turner have also been admitted as general partners in the firm of Burns Bros. & Company, Toronto, members of the Toronto Stock Exchange. Mr. Turner becomes resident partner of the newly opened Montreal office of the latter firm.

Edwin Peet

William Constable

William Constable, associated with Ira Haupt & Co., New York City, passed away at the age of 70 after a long illness.

Continued from page 17

Reserve Banking in A Dynamic Economy

credit. In that period, bankers were sensitive in their lending and investment decisions to variations in the source of their required reserves. Whenever open market operations withdrew reserves from the market, banks tended to become more restrictive in their lending policies even though they could, and did, make up any reserve deficiencies at the discount window of the Reserve Banks. Further, interest rates were influenced both by the volume of member bank borrowing and by changes in the discount rate. Finally, although it was difficult of measurement, tightness or easiness in the credit market was reflected through banker sentiment and the attitudes of many businessmen.

The past 18 months have provided additional experience supplementing that of the Twenties. As there has been more frequent resort to the Federal Reserve discount window, it appears that member banks have not been unmindful of the substantial shifts in the volume of their borrowing. With tightness in the availability of reserve funds, there is evidence that banks have shown increasing reluctance to enter into new commitments as the level of discounts and other borrowing has risen. Interest rates have reflected these changes.

In other words, recent as well as earlier experience would indicate that open market operations can be used to increase or decrease the dependence of member banks on borrowing; and further, that because of the natural hesitancy of bankers to carry extensive borrowings on other than a temporary basis, the total of member bank indebtedness will exert a determining influence on the availability and supply of credit.

Role of Reserve Requirements

Earlier in the postwar period, changes in member bank reserve requirements assumed unusual importance as a reserve banking instrument. As I said before, this was the case largely because the System's older instruments for influencing the total volume of credit and money were severely limited in use at that time. The present increased emphasis on discount and open market operations indicates, in my opinion, that changes in reserve requirements will resume a more secondary role in reserve banking operations. Changes in reserve requirements are a harsh instrument because they have disproportionate effects among individual institutions. Their across-the-board characteristics are devoid of the element of flexibility which is essential for frequent use in influencing the total volume of bank credit and bank deposits. They are a measure to be used in unusual circumstances for contracting or expanding the liquidity position of the entire banking system. This was the original conception of their use.

General Observations

The development of more flexible debt management, credit, and monetary policies over the past 18 months has been accompanied by relative economic stability at a high level of output and employment. The economy has been able to absorb an expanding defense program which now runs at the rate of over $50 billion a year and at the same time has actually produced more for other purposes than it did before Korea.

While financial measures have been indispensable and primary in attaining this degree of stability, I do not want to give the impression that I think they alone were responsible. Nor do I want to give the impression that at long last we have found a formula for economic stability and that our job is done.

In a truly dynamic economy, the job of maintaining economic stability is never done.

Sterling's Fluctuations

By PAUL EINZIG

Dr. Einzig discusses the pros and cons of widening the limits within which sterling exchange is allowed to fluctuate. Says proposal for wider limits is distinctively tempting and should British Government decide on a change "it could do worse than adopting wider official limits within which sterling is allowed to fluctuate."

LONDON, Eng.—Agitation in Britain in favor of allowing sterling to find its own level, having reached its climax towards the middle of 1952, now appears to have subsided somewhat. Those supporting the idea have come to realize that there is not the least possibility for its adoption by the government or its approval by the International Monetary Fund. Most of them are now, therefore, willing to compromise halfway between the rigidity of sterling as established under the Bretton Woods Scheme and its complete elasticity. Suggestions have been made from a number of quarters favoring a widening of the range within which sterling should be allowed to fluctuate. At present this range is 2.78-2.82 in relation to the dollar, a margin of rather less than 1% on either side of the official parity of 2.80. It is now suggested that this margin should be widened to 10% or possibly more.

Dr. Paul Einzig

The main argument for this solution is that its adoption would give the British authorities a chance to intervene successfully in the foreign exchange market. Under the existing system the scope for such intervention is admittedly limited. Those who are short of sterling are not likely to be deterred from remaining short by the possibility of government intervention causing an appreciation from \$2.78 to \$2.82. The risk involved is negligible compared with the possibility of a profit in case of a devaluation or depreciation of sterling. The reason why during the 'thirties official intervention was so effective was that the Exchange Equalization Fund was in a position to bring about an appreciation of sterling by 10% or more. As there was no limit for the fluctuations of sterling and the Exchange Equalization Fund possessed substantial resources, there was always a possibility of "squeezing the bears" whenever bear positions assumed considerable magnitude. By announcing their intention to hold sterling within \$2.78 and \$2.82 the British authorities have undoubtedly relinquished a very effective weapon in defense of sterling—the weapon of the threat of bringing about an appreciation.

The main argument against the proposal of widening the margin between the maximum and the minimum rate is that in the prevailing circumstances the effect of such a change would be simply that sterling would depreciate to the vicinity of its lower limit so that the new arrangement would simply amount to another devaluation. It is argued that a second devaluation within three years would undermine confidence in the stability of sterling and in the ability of the British authorities to maintain it at its new minimum rate. Consequently, the argument goes on, speculative pressure would be just as low at say \$2.60 as it is at \$2.78.

Even allowing for this argument, it must be admitted that the proposal is distinctly tempting. It has great advantages over the suggestion that all limits could be removed and sterling should be allowed to find its equilibrium rate. In prevailing circumstances an equilibrium rate simply does not exist and the removal of official limits to the fluctuations of sterling would be the best means of accentuating the wave of distrust. On the other hand, the establishment of wider limits to the fluctuation of sterling might inspire confidence provided that additional dollar resources are placed at the same time at the disposal of the British authorities to enable them to intervene effectively. If the margin is widened to, say, 20 cents on each side of the parity of \$2.80 then those who are short of sterling when the rate is in the vicinity of its new limit of \$2.60 are exposed to a loss of 40 cents. In possession of substantial resources the British authorities would always be in a position to bring about an appreciation to the vicinity of the upper limit and to maintain it there for a sufficiently long time to compel a large number of speculators to cut their losses. Even if circumstances were to force the British authorities to allow subsequently the rate to decline again, the possibility of another bear squeeze would always be present. The repetition of the operation on a large scale several times a year would yield a considerable profit to the Exchange Equalization Fund.

This solution would present considerable advantages compared with an outright devaluation and also compared with allowing sterling to depreciate without fixing limits. A devaluation would not solve anything any more than did the devaluation of 1949 or the repeated devaluation of the French franc since the war. After a year or two the position would be precisely the same as it was before devaluation. By devaluing sterling the possibility of its appreciation above its new parity would be for all practical purposes abandoned. Speculators would take their profit and, encouraged by their success, would resume speculating against sterling after a while.

Nor would sterling inspire any confidence if it were to depreciate following on a complete removal of the limits fixed for its fluctuation. Such a change would imply the abandonment of its present parity and speculators would consider it most unlikely that the authorities would put up a determined defense at some lower level. Indeed the whole idea of unpegging sterling would be to allow it to find its own level and any persistent intervention on a large scale would be contrary to that principle. The speculators would assume, naturally enough, that whenever the authorities realize the persistent character of pressure against sterling they would allow the rate to find a new and lower level.

So long as the parity remains fixed, a depreciation to the lower limit that would follow a widening of the margin between maximum and minimum limits would leave the door open for the anticipation of a recovery. The declared policy of the authorities would remain the maintenance of the parity. Once sterling is declared elastic, however, there ceases to be any reason for assuming that \$2.80 or any other figure would have any meaning for the authorities.

Should the British Government decide on a change it could do worse than adopting the suggestion of widening the official limits to the fluctuation of sterling.

Seaboard Finance Co. Notes Sold Privately

Seaboard Finance Co. has placed privately with a group of institutional investors an issue of \$12,000,000 $4\frac{3}{4}\%$ subordinated notes due Sept. 1, 1964, according to an announcement made on Sept. 29. The financing was negotiated by The First Boston Corp.

The proceeds will be used to retire the outstanding \$6,240,000 of $3\frac{7}{8}\%$ subordinated notes due June 15, 1960 and the remainder used to reduce current indebtedness to its line-of-credit banks originally incurred to lend to borrowers and to purchase receivables, either directly or through subsidiaries, in the ordinary course of business.

Socony-Vacuum Oil Offer Underwritten by Morgan Stanley Group

In one of the largest industrial equity financing operations undertaken in recent years, Socony-Vacuum Oil Co., Inc. is offering its stockholders rights to subscribe at \$31 per share to 3,180,188 additional shares of its capital stock at the rate of one share for each ten shares held of record on Sept. 25, 1952. The rights expire on Oct. 14, 1952. The offering is being underwritten by a nationwide group of 216 investment firms headed by Morgan Stanley & Co.

The company estimates that capital expenditures in 1952 will reach a record high figure of approximately \$245,000,000. Of this total there will be expended in the United States approximately 63% for the acquisition and development of crude oil production, approximately 11% for the expansion and improvement of refining, approximately 4% for transportation facilities and approximately 9% for marketing facilities. The balance or approximately 13% will be expended in the Western Hemisphere outside the United States.

For the six months of 1952 gross operating income of the company and its consolidated subsidiaries was \$775,689,000 and net income was \$84,060,000, equivalent to \$2.64 per share of capital stock presently outstanding. The company is currently paying a quarterly cash dividend of 50 cents a share.

One of the largest companies in its field, Socony-Vacuum conducts an integrated business in the production, transportation, refining and marketing of petroleum and its products. The principal trade marks identifying its products are MOBILGAS, MOBILOIL, GARGOYLE, MOBILHEAT and the flying red horse. Some of the company's products are sold in all 48 states, Alaska and practically every foreign country outside the iron curtain.

The company's domestic production is obtained principally from Texas, Oklahoma and California and its gross domestic production has increased from approximately 69,423,000 barrels in 1947 to 86,691,000 barrels in 1951. During the same period domestic gross reserves of crude oil and condensates increased from an estimated total of 1,121,000,000 barrels at the end of 1946 to about 1,650,000,000 barrels at the end of 1951. In addition, the company has important sources of production in the Middle East and Eastern Venezuela, gross production from all foreign sources having totaled 67,356,000 barrels in 1951. Its foreign reserves of crude oil and condensates were estimated at about 2,858,000,000 barrels at the end of 1951.

Hagen, Luce To Be Ackerman Partners

Herman Hagen and William F. Luce, members of the New York Stock Exchange, will become partners in Ackerman and Company, 52 Wall Street, New York City, members of the New York Stock Exchange, as of today (October 2). Both were formerly partners in Gamwell & Co., which has been dissolved.

Prescott & Co. Branch

SANDUSKY, Ohio—Prescott & Co., members of the New York and Midwest Stock Exchanges, has opened a branch in the Feick Building under the direction of Jack P. Sharpe. In the past Mr. Sharpe had been associated with Hornblower & Weeks in Cleveland.

James C. Robinson

James C. Robinson, partner in Foster & Marshall, Seattle, Wash., passed away Sept. 18.

Continued from page 11

Corporate Tax Savings Through Profit Sharing Trusts

no security is provided for any one.

The profit sharing trust appears to provide some answers to these problems. In the first place, and most important, a contribution is required only when profits have exceeded a definite level. Thus, in the creation of a profit sharing trust management need not face the heavy responsibility of undertaking a future commitment of unknown size and unknown duration which is an essential requirement if a pension trust is established.

A problem which bedevils the managements of many companies is the means of dealing with senior employees whose age and health have limited their effectiveness. Too often an employee who has long been tired of working hangs on because of financial necessity. Too often younger and deserving employees are denied promotion because management recognizes the serious hardship that would result from a severance. The creation of a profit sharing trust immediately begins to build financial security which would permit the establishment of an orderly plan of retirement for senior employees. This would not only benefit them but would serve to improve organization morale by opening up opportunities for advancement among the younger personnel.

Because the annual contributions to a profit sharing trust are based on profits every member of the organization has a direct financial interest in efficient and economical operation. Studies made of the comparative effects on morale of pension plans and profit sharing plans indicate that the profit sharing plan has definitely proven the most stimulating. The employee under a pension plan knows that benefits usually do not become payable until he reaches the retirement age. Under a profit sharing trust once the employees' interest becomes vested it is much more like "money in the bank." For example, under certain conditions the trustees may vote a general distribution to beneficiaries who have been under the trust for a sufficient period of time. Such a distribution may help to cushion a salary reduction. If a vested employee wishes to sever connection with the company his interest in the trust may be distributed to him. Payments may be made in the event of prolonged illness or disability. Thus, the profit sharing trust, by promising him immediate possible benefits for the nearer term and offering possibilities of substantially greater retirement wealth have proven more effective as organization morale builders than pension trusts.

The creation of a profit sharing trust is both simple and economical. For the small business having perhaps only 20 employees on up to concerns employing as high as four or five hundred the creation of a profit sharing trust requires a very modest amount of executive time, and its administration will require only a nominal amount of accounting time. For example, one organization employing a personnel of approximately 160 people which has been operating a profit sharing trust for some eight years advises it requires the services of one girl in the payroll department one week each year to maintain all the necessary books and records. In this particular organization the trustees meet quarterly for a review of the investment policy of the trust and the management determines semi-annually the contribution to be made. While all such plans must be cleared with the Internal Revenue Department, if they are properly prepared and presented and if the basic philosophy behind the various Treasury regulations is understood, this is a relatively simple procedure.

In the last analysis management is primarily interested in the answers to two highly important questions. The first is whether the plan will provide worthwhile benefits to all personnel on the payroll. The second is whether the plan has sufficient flexibility so that contributions are not required under circumstances which would make it an unsound financial risk. It would appear that the answer to both these questions is favorable under an intelligently planned profit sharing trust.

"Trying It On" Your Business

It is a relatively simple matter for the management of a company to determine what a profit sharing trust might be expected to cost and what it might be expected to accomplish. Such a "preview" may be had for the cost of a small amount of executive and bookkeeping time. The procedure is quite simple.

The management should ask a profit sharing consultant to make a survey based on actual earnings and income tax figures for a period of five to ten years back. The consulting firm will first study the company's income and payroll records to determine a sound formula for these hypothetical contributions. They will then create a theoretical trust allocating the contributions and determine the effects on the company's tax and net income picture. In addition they will be in a position to apply an assumed investment experience to the contributions paid into the hypothetical trust, thus giving the management some kind of picture of how such a plan would have functioned and the benefits it would have created. At that point the directors, and the stockholders, if required, will be in a position to make an informed decision in more specific terms. If the plan is not feasible, no harm has been done and management will undoubtedly have some pretty clear ideas as to when and under what circumstances a plan would be feasible.

Setting Up a Plan

The actual setting up of a plan is quite simple. The first step is to approve, either by vote of the Board of Directors, or stockholders, or both the creation of such a plan. Next a Board of Trustees must be selected. Very often a board of three consisting of one representative of the employees, one representative of the management and one "outside" person (this may be the company's attorney, an officer of the bank which will handle the trust or a director who is not also an official of the company). The next step is to draft the trust agreement which sets forth the provisions under which contributions shall be made to the trust and distributions made to the beneficiaries. Most firms specializing in this type of work have model trust agreements which can serve as a guide and, thus, greatly simplify the preparation of the instrument. This instrument should be prepared by the company's attorney in consultation with their accountant, an officer of the bank which will act as custodian of trust assets and an officer of the consulting firm which has developed the plan. An important function of the consulting firm at this point is to assure that the provisions of the trust are not so drawn as to be considered discriminatory which, of course, would result in Treasury Department disapproval of the plan.

Once the plan has been drafted it is submitted to the Internal Revenue Department in Washington for approval. As soon as approval is received the instrument is executed and the trust is in operation.

As the fiscal year of the company draws to a close it will be possible, in most instances, to determine whether profits justify a contribution. If so, the contribution, which is a deductible expense for tax purposes, is voted and paid over to the trust. Many companies elect to use the services of a bank or trust company to retain custodianship of trust assets and keep the necessary books and records. The services are charged for at a very reasonable rate and provide a safeguard against the loss of valuable negotiable papers.

At the time the contribution is voted the investment firm will submit recommendations to the trustees for the investment of the money. The services of a well organized investment planning firm will be rendered on a continuing review basis. They will not only submit recommendations for investment of contributions but will periodically review the trusts investments in the light of changing business and market conditions. Normally, for the conservative type of program which should be followed in a retirement trust a quarterly review of general policy is sufficient.

Robinson Partner in Anderson Strudwick

RICHMOND, Va. — Arthur R. Robinson, formerly manager of the Municipal Bond Department of Fidelity Union Trust Company, Newark, N. J., and for the past year Vice-President of W. H. Morton & Co., Inc. has been admitted to general partnership in the investment firm of Anderson & Strudwick, 807 East Main Street.

Arthur R. Robinson

Mr. Robinson started in the bond business in 1921 as assistant cashier of Ogilby and Austin; later he served as cashier and treasurer of Austin, Grant and Ogilby until its dissolution in 1926, and subsequently was treasurer of M. F. Schlater & Co. until 1931. In 1931, he organized Arthur Robinson and Company, New York City, and in 1932 reorganized his firm to form Colyer, Robinson and Co. of Newark, which firm he headed until 1942, when he accepted a direct commission in the U. S. Army Air Force. He served on staff of Gen. Stowell as Air Inspector (I.G.D.) of North African Division A.T.C. until October, 1945, and since that time has been manager Municipal Bond Department of the Fidelity Union Trust Company, Newark, New Jersey.

Doolittle & Co. Takes Over Schoellkopf Co.

BUFFALO, N. Y. — Doolittle & Co., members of the New York Stock Exchange, Buffalo, announce that Schoellkopf & Co. has been merged with the firm and that the Schoellkopf office will hereafter operate as a branch of the Doolittle organization. William Schoellkopf will be resident partner and Walter B. Brooks and Frank W. Tindle will serve as co-managers of the branch office.

Continued from page 13

Our Propaganda Failures in Asia

out, in turn, teachers for the millions who cannot earn a living. We must make reference material available to those who can read (320 million out of a billion in the Orient cannot). *And all this* help must be so firmly planned as not to collapse with each new trying problem, which it now tends to do.

The Indians, by the way, have demonstrated, in one dramatic example, in Faridabad, that they can make their own rehabilitation programs work—we *don't* have to do the job. Faridabad borrowed $5 million from the central government and turned a desolate and distressed rural village of poverty and squalor outside New Delhi into a suburban industrial center in four years—a quite perfect modern town for 50,000 penniless refugees. They now live and work there with social and productive amenities of the sort to which most of Western Europe would aspire. And they're repaying the government already.

We should continue to back this sort of thing—do it *jointly* and as cheaply as possible, so the Asians can maintain for themselves what we help them to start. These projects should be duplicated (and then skillfully exploited) in other pivotal communities—to let productive democracy be openly measured against Communism.

Why Not Do a Better Job In Far East?

There is one place in the Far East where my complaint shifts: why haven't we done a better job through Asia of exploiting the success we've had in improving the lot of Formosans. We have successfully cashed in on our efforts on the Island of Formosa (or on Taiwan, as the natives prefer it be called). I came away convinced we were at least getting credit with the Taiwanese for the reversal in their welfare. Why not off the Island among other susceptible Orientals?

Land reform (helped by the warm breath of the American Joint Commission down the backs of Island officials) gave the Formosan farmer 62.5% of his crop. He formerly got about 30%. American fertilizer was distributed to make the land more productive. We also helped rehabilitate the Island's war-ravaged fertilizer plants. The result is the largest crop in Formosa's history.

Somehow we must make it clear all over Asia that this is our idea of justice—that we are not supporting policies in Asia that we disapprove of in the U. S. A. for ourselves. Otherwise, the Reds will continue, quite brilliantly, to class us as silent partners of the ghosts of the former Empires, which still haunt the people of Asia.

Dr. Wilson Compton, international information administrator of our State Department, recently wrote me that he considered his job in terms of good distribution. He meant getting the right product to the right place at the right time . . . to him, that product is TRUTH—the truth about Americans. I hope he succeeds, for each time he does, he cuts down the disbelief and even the fear many backward people have for us.

I think we can only do this if we stop distributing "big phrases" about the specific wonders of our capitalistic world as against their peonage—and abandon the dream of transplanting, overnight, any glorified notion of our 20th Century civilization. The dream is so ridiculous as to be tragic. The one thing hungry millions yearn for *is the direct and explicit certainty of their next meal,* and we must stop talking about the distant golden wheat fields of Kansas and tall corn of Iowa as if they were any immediate answer. To millions of the world this is just as sardonic (and just as much a failure) as trying to sell Americans on a great new life on Mars. We all want and expect a better life on our own little planet—and not on Mars. The backward people want that, too.

Do we really expect a deeply wounded and hungry mass of people, living in dirt-floor shacks, to cheer about our skyscrapers . . . or the giant tractors . . . or the toilets, soft drinks, chewing gum, cars and telephones—all of which they've never seen?

In an Indian community no one had ever seen anything as complex as our common garden-variety hoe till we gave a bundle of them to some farmers who'd been using primitive sticks. Hoes promptly raised the crop output. Imagine what motorized tractors would do? *If India can raise her production just 10% she can eat.*

Intead of vast projects based on our own needs and standards, we ought to continue (as we have started in one successful test in the village of Etawah, India) with simple tools like those hoes — with crop rotation aids, new roads and practical agricultural demonstrations of better techniques and new practices. And they ought to be carried on by a foreign-service infantry force really willing to *dirty* their hands, and be humanly involved.

Everywhere I found the Communists working "close to the soil." They scatter and distribute leaflets, canvass peasants' houses, penetrate inoffensively into unions and meeting places and religious societies—meet the common people in every day situations. They play down any obvious politics and are less under suspicion and less irritating as a result — but this method makes them more dangerous.

The soviets have launched a giant "book campaign" simultaneous to other cultural invasions. (We seem to be amateurs at this game, too.) This fact shows up in curious places. All over India, the Communists use their membership as a human distribution chain to pass out literature which emanates from Moscow. The books sell for less than they cost. They are cleverly printed—by Indian standards. They are given over to glorification, written on an almost childishly readable level, of Russia and the blessings of Communism. The very nature of their contents makes it difficult for Indian government officials. They cannot term the material subversive, therefore they are finding the books hard to ban or control.

Even in Japan, Soviet-published books written in Japanese flood the bookstalls in the vulnerable student university areas. I visited shop after shop in Tokyo where brand new bargain books were selling at two-thirds off their list price—and selling like hotcakes! Biographies of "Uncle Joe" were best-sellers.

Not all the cultural offensive is waged through books; the Soviets have unleashed a flood of films, too; "The Fall of Berlin" is the most notable one. And the most diabolic success of all has been their "leaflet penetration" of Asia. We really stand convicted today on the "germ warfare" we never conducted. "Cultural missions" are constantly invited to China—to tour and see the "contagious renaissance" there (as they put it) . . . . to see for themselves the so-called "agrarian reform" . . . . and proof of the so-called "be-

nevolent yearning for peace" among Chinese Communists. These they are expected to dramatize when they return to off-Communist bases. These they do do—and so effectively many natives ask themselves which type of democracy, the western or eastern type, they prefer. Can we say we are doing as well?

The Reds are skillful in other ways. They train their agents to eat the same food, talk the same language, wear the same clothes, and endure the same hardships as the people they promise to rescue. We, on the other hand, attempt to permeate Asiatic countries with ideas we think important, by using Americans who don't know the country they're in, can't speak the language, and never leave the major cities. This difference symbolizes the truth of our comparative failure. I found our information people, too often using psychologically unsound, beautifully elaborate brochures to make arguments above the ken of the natives.

I'm sorry to seem to sound so critical. So much of our propaganda efforts are carried out by dedicated young men who really deserve our applause for their efforts. They live (with their long-suffering wives and often with babies) under conditions which the average American would find cruelly primitive and difficult. Their will and willingness and their ardor are beyond question; *but the direction they are often given is quite another thing.*

Position of India

In India, I feel there is a very real political soft spot for us to aim at in the Communist armor. The Communists have cut a poor parliamentary figure on the legislative battlefield. First of all, India has ruled a time limit on speeches in the Lower House (something many Americans like me feel quite bitterly about, I may add). Mob oratory has been rather stifled by the stop-watch.

It's possible the Communists have even overdone their ranting and raving in Congress by giving openings for both the ministers and back-benchers to score direct hits by ridicule. I think our propaganda experts might take up the points so conveniently raised by these moderates in India's government; perhaps they do, but if they do, no one claimed it when I was there.

The Communist-theatrics in Congress have provided (or I should say provoked) debates in defense of much we'd approve of —first of all, for the Commonwealth membership we will soon hear so much about; secondly, they argue for the virtues (instead of the evils, for a change) of English businessmen in India, and, thirdly, they even praise our otherwise often scorned American aid. It's reassuring to know that not all of India is against the western world's projects and ideas. There are refreshing and adventuresome young bloods among the India politicians. They have skill. And they use it to attack Indian commies.

I like this morning's news: Nehru shouting, "There's no room in India for you." Heckling to Communist demonstrators makes a good mental picture. He went on to tell the Reds to "go back to the native place of Communism with their Red flags and placards." I hope our propaganda experts are as busy as bees today in the Orient. India's masses live but are rarely reached by faint echoes of distant debates in Congress. Again, I point out, this requires the men and women to speak the language and to work at the village-to-village level instead of the city-level. We tend to forget that there is no communication network anywhere in the world to compare with ours in the U. S. A., and almost least of all over India's vastness.

Anything our Information Services can do in the next four critical years of the five-year plan to help parade results gotten by India will increase the problems of the Communists. Where fertilizers, power and irrigation, locomotives and farm-implement projects succeed, the noisy news of each success simply must be carried off to the village mud roads and hovels of people who are not yet beneficiaries.

I'd like to point out another thing. There is an interesting political structure in India to build on—there is more than one political alternative in India besides Communism. There are, of course, the right wing groups (who are the remaining defenders of the Empire idea), but there are also political parties of a shade to the left of Congress yet to the right of Communists. Most important are the Socialists and the strong Praja* parties—who even now are contemplating an improbable alliance. They are there, *handy,* to blot up any spill-over from Congress *before it reaches the Communist stage.* There's democratic paydirt in popularizing middle-road parties.

Two Way Streets

To me, propaganda and information are two-way streets — *or should be.* If you think this is an obvious statement, I suggest you journey to the Far East. Only when you come home will you realize how feebly information and propaganda about the East have worked on you. We are like the blind leading the blind; we know so little about the people we seek to lead.

Whether we like it or not, "leading" people happens to be our role right now. The United States has become the greatest power in the world, both industrially and militarily. I think we are far too prone to want to make the world over in our own image—and most of the world resents it. Before even such a silly notion could succeed, we'd have to know more than we do about the world we seek to remold.

One way to overcome our tendency to make everyone else like us would be to know more about them. If we appreciated the values of some of the local cultures we're intending to stamp out perhaps we wouldn't be so anxious. I needn't remind anyone in this room that many people in the Far East have a heritage more distinguished and more venerable than any in our western civilization. When we learn to have genuine respect and appreciation for many of their cultures (and, may I add, *when these people know we do)* we will understand how to carry on information and propaganda programs which will be effective with the involved populations.

All of us who are members of the press, and in all media of communication, ought to give a lot more thought to how better we can help Americans to understand the true nature of other peoples all over the earth. Obviously, I feel we ought to do some full-scale focusing on the Orient. There is so much space (as well as differing customs and ideas) separating us from the Orient, I wonder how the job of getting to know it will ever be done. It seems, today, like a monumental task just to get mass-America *interested* in the Orient—not alone educated about it. *It has to be done.*

It is the job of you and me to get it done, however impossible it seems at the moment. Then, and only then, do we and our information services have a real chance of interpreting our hopes and aspirations to the people of the Far East—for a better world for them, as well as for us. The tenuous course of history has often before depended upon words. It certainly does again, in Asia.

*Krishak Magdoor Praja.

W. T. Grimm Opens Los Angeles Branch

LOS ANGELES, Calif.—W. T. Grimm & Co., Chicago firm specializing in private placement investments, announces the opening of a Pacific Coast office at 714 West Olympic Blvd., Los Angeles, under the direction of H. W. Kerley. Mr. Kerley formerly was Assistant Vice-President of the Bishop National Bank, Honolulu, and earlier was with the Bank of America. The firm also announced the association with it in the Chicago office of Frank D. Foss, formerly in the Bond Investment Section of the Bank of America, and Frank C. Pendleton, recently graduated from the Northwestern University School of Commerce.

Draper, Wainwright Join Estabrook Co.

Estabrook & Co., 40 Wall Street, New York City, members of the New York and Boston Stock Exchanges, announce that Ralph C. Draper and Stuyvesant Wainwright are now associated with the firm. Both were formerly partners in Gamwell & Co.

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Frank A. Cleveland has joined the staff of Waddell & Reed, Inc., United States National Bank Building.

National Bank Earnings Up in First Six Months

Preston Delano, Comptroller of the Currency, reports increase in net operating earnings of $59 million over results in the first half of 1951. Cash dividend payments in first half of 1952 put at $126 million, compared with $115 million in corresponding period last year.

Comptroller of the Currency Preston Delano reports that the national banks in the United States and possessions reported net operating earnings of $532,000,000 for the six months ended June 30, 1952, an increase of $59,000,000 over the first half of 1951.

Preston Delano

Gross earnings of the banks were $1,319,000,000. This was an increase of $131,000,000 over the gross earnings for the first six months of 1951. The principal item of operating earnings in the first half of 1952 was $735,000,000 from interest and discount on loans, which was an increase of $91,000,000 compared with the corresponding period in 1951. Other principal items of operating earnings were $300,000,000 from interest on United States Government obligations and $80,000,000 interest and dividends on other securities, a total of $380,000,000, which was an increase of $29,000,000 compared to the first half of the previous year, and $67,000,000 from service charges on deposit accounts, an increase of $3,000,000. Operating expenses, excluding taxes on net income, were $787,000,000 as against $715,000,000 for the first half of 1951. The principal operating expenses were $386,000,000 for salaries and wages of officers and employees and fees paid to directors, an increase of $34,000,000 over the first half of 1951, and $126,000,000 expended for interest on time and savings deposits, an increase of $22,000,000.

Adding to the net operating earnings profits on securities sold of $12,000,000 and recoveries on loans and investments, etc. (including adjustments in valuation reserves) of $27,000,000, and deducting losses and charge-offs (including current additions to valuation reserves) of $69,000,000, and taxes on net income of $223,000,000, the net profits of the banks before dividends for the six months ended June 30, 1952, were $279,000,000, which at an annual rate amounts to 8.22% of average capital funds. Net profits for the same period of the previous year were $257,000,000, or 7.99% of average capital funds.

Cash dividends declared on common and preferred stock totaled $126,000,000 in comparison with $115,000,000 in the first half of 1951. The annual rate of cash dividends was 3.73% of average capital funds and was 45.35% of the net profits available. The remaining 54.65% of net profits, or $153,000,000 was retained by the banks in their capital accounts.

On June 30, 1952, there were 4,932 national banks in operation, which was a decrease of 21 banks since June 30, 1951.

Continued from page 3

A Look at the Economy

make new kinds of goods to exacting specifications; then there were the postwar adjustments and the necessity of suddenly shifting from war production to peacetime production; finally, with the Korean War and the defense program, there has been a repetition on a considerably milder scale of many of the problems of the Second World War.

The rapid rush of tough and inescapable problems has produced stomach ulcers and nervous breakdowns but these problems have also forced managements to scrutinize themselves and their ways of doing things and have thus produced rapid improvements in administrative organizations and in administrative methods. In other words, the turbulent times in which we live have been hard on managers but they have been good for the art of management, and, to that extent, for industrial efficiency.

III

What has been happening to the country's standard of consumption? Whatever questions one may have about the precise amount of the total increase in the output of private industry, there is no doubt that the production of goods for current consumption has gone up. In the first half of 1950 it was at the annual rate of $207.2 billion in terms of 1952 prices; in the first half of 1952, $6.9 billion larger, a rise of almost 3.3%. In the meantime the population of the country has increased about 3%. Hence per capita consumption has remained virtually unchanged, increasing by a negligible amount. Thus the Korean War and the defense program have deprived the country for two years of the usual increase in its standard of consumption, but they have not yet at any rate forced the country to accept a lower standard of per capita consumption.

IV

What has happened to the volume of investment? The rate of investment in the plant and equipment of industry and agriculture, expressed in 1952 dollars, was about one-sixth larger in the first half of 1952 than in the first half of 1950. You will be surprised to learn, I think, that the volume of private investment, expressed in 1952 dollars, in the economy as a whole was slightly less in the first half of 1952 than in the first half of 1950. This drop in the total volume of investment was due to a shift from an increase in inventories in the first half of 1950 to a decrease in 1952 and to a moderate drop of investment in housing.

V

What is happening to the balance of inflationary and deflationary influences in the economy? This is an interesting and important question because during the last six years important new influences, some inflationary and some deflationary, have come into the economy. Let us look first at the principal new deflationary influences and then at the new inflationary ones.

There are four deflationary influences that have recently become important: (1) the great rise in private indebtedness; (2) the rapid growth of pension funds; (3) the high level of taxation, especially taxation of personal and corporate incomes, and (4) revisions in the timing of defense expenditures and in the peak level of these expenditures.

(1) **The great rise in private indebtedness.** Both corporate indebtedness and personal indebtedness have increased far faster than the national income since the end of 1945. The rise in corporate indebtedness between the end of 1945 and the end of 1951 was 85%, the rise of personal indebtedness was 118%, and the rise in the national income between 1945 and 1951 was 52%. The great growth of indebtedness is deflationary because the debts are gradually repaid. The annual repayments are a form of contractual saving. Most of the repayments are re-invested. Thus they increase the ratio of savings to total incomes. This is deflationary.

(2) **The rapid growth in pension funds.** The growth of pension funds is deflationary because the payments into these funds at the present time substantially exceed the benefit disbursements. The excess of receipts over disbursements are a form of saving and hence they raise the ratio of savings to the income of the country. In the distant future, after the accrued liability under the pension plans has been met, and after there has been time for many persons now covered by the plans to have reached the age of retirement, the payments into the funds may not greatly exceed the benefit disbursements. This balance between revenue and disbursements, however, will not be reached for many years. At present the receipts of private pension funds are running roughly $2 billion a year above benefit disbursements.

(3) **The high level of tax rates.** The Korean War and the defense program have caused tax rates to be substantially increased. High tax rates on personal incomes are a strong check on inflation because they mean that a large fraction of any growth in incomes will substantially raise the revenues of the government. High rates of taxation of corporate incomes are also a check on inflation for the same reason. High corporate taxes, however, are less of a check on inflation than high taxes on personal incomes because the high corporate income taxes tend to weaken the resistance of employers to the wage demands of unions. Since employers know that any increase in costs will reduce their tax liability, they have less incentive to hold out against pressure for higher wages. Furthermore, if employers expect present tax rates on corporations to be reduced in a year or two, employers have an incentive to make some kinds of expenditures now rather than later. This, of course, is inflationary. But the stiff taxes on corporate profits do greatly limit the tendency for increases in profits to raise either the expenditures or the dividend disbursements of corporations.

(4) **Revisions in the timing of defense expenditures and in the scheduled date for the peak level of these expenditures.** During the last year or so there have been drastic revisions in the scheduling of defense expenditures. There have been several reasons for these changes. One has been the fact that the military authorities were not ready to decide just what they wished industry to produce and were not able to settle on designs and specifications. A second reason has been that industry has had trouble in making production schedules. A third reason has been that Congress has refused to appropriate money in the amounts requested. A fourth has been the loss of steel resulting from the recent steel strike.

In July, 1951, the Council of Economic Advisers stated that the peak of defense expenditures would be reached in the second quarter of 1952, and that the annual rate of defense spending in that quarter would be about $64 billion. Actually the annual rate of defense spending in that quarter was $18 billion less, or $46.0 billion. In January, 1952, the Council of Economic Advisers issued revised estimates of defense expenditures which indicated that the peak would be reached in the fourth quarter of 1952, and would be at the annual rate of about $65 billion. On April 1, 1952, Mr. C. E. Wilson, in his final report as Director of Defense Mobilization, estimated that defense and military aid expenditures would reach a peak of about $60 billion a year or a little less at the end of 1952, and would continue at that level through the calendar years 1953 and 1954. Congress in its last session refused to make defense appropriations in the amounts requested by the President. The difference between the President's requests and the appropriations of Congress was about $8 billion.

The budget estimates for the present fiscal year submitted by the President in August, 1952, indicate that total expenditures on defense and military aid in the fiscal year will be about $6.8 billion less than estimates in the President's budget message of last January. The Council of Economic Advisers in July, 1952, estimated that the plateau of defense spending would be reached "some time before the end of 1953" and that the level would be between $60 billion and $65 billion. Remember that only a year earlier the Council had said that the peak would come in the second quarter of 1952. My belief is that the plateau of defense spending and foreign aid will be around $60 billion a year—probably a little below. The defense program has been a powerful inflationary influence but the changes in its timing and the reductions in the planned peak of spending have made it substantially less inflationary than it otherwise would have been.

VI

What are some of the inflationary influences that have gained strength in the economy? There are three principal ones: (1) the development of political control of credit policy; (2) the tendency to give more and more support to the prices of farm products; and (3) the spread of automatic wage adjustments based upon a so-called "improvement factor" or the estimated annual increase in output per manhour.

(1) **The development of political control of credit policy.** Congress has shown an ominous disposition to take the control of installment credit and real estate from the banking authorities. In other words, Congress has yielded to strong political pressures from consumers, retailers, labor unions, and real estate interests. Authority of the Federal Reserve system to regulate installment credit has not been renewed and its authority over real estate credit has been virtually destroyed. Congress does not feel the same political pressures for cheap commercial credit, and, consequently, it has not intervened in that field.

In intervening in the making of credit policy to make installment credit and real estate credit easier, Congress has undoubtedly been giving the people what they desire. This, however, does not make the intervention of Congress any less inflationary. Depriving the Federal Reserve system of control over installment credit and virtually depriving it of control over real estate credit means that the tendency of prices to rise during periods of boom will be stronger than it otherwise would have been—certainly stronger than it would have been had some control been exercised over installment and real estate credit.

The rate at which prices rise during periods of boom is important because it has great influence upon the long-run movements of prices. The government is bound to make every effort to keep recessions in business as mild as possible. Hence, the greater the rise of prices during periods of boom, the greater will be the long-run rise in the price level. Both political parties seem equally disposed to deprive the Reserve system of authority over installment and real estate credit.

(2) **The tendency to give more and more support to the prices of farm products.** Congress for a third time has postponed the date when the rigid support of certain farm commodities at 90% of parity will be superseded by flexible price supports which would take account of changes in supply. Furthermore, Congress this summer has extended for three years the so-called "dual parity system" which requires that parity prices shall be based upon whichever of two formulas (one based on pre-World War I prices and the second a so-called "modernized" formula) gives the higher result. Support of the prices of farm products at the levels now required by law seems to assure that the government will soon be holding large surplus stocks of these commodities. The government accumulated large stocks several years ago and was bailed out only by the Korean War, which came just in time to conceal from the public the basic weaknesses in the present farm policy. There is plenty of trouble ahead in the field, and the competition for the farmers' votes causes both candidates for the Presidency to talk nonsense on the subject of agricultural price policy.

(3) **The spread of automatic wage adjustments based upon a so-called improvement factor.** Early this year the Bureau of Labor Statistics estimated that about 1,250,000 employees worked under contracts providing for automatic wage increases based upon an annual improvement factor. Nearly 1,000,000 of these workers were in the automobile industry. There is some pressure to extend this form of contract into other industries, especially the oil industry. There is a possibility that the Wage Stabilization Board will greatly spread the use of this form of contract by using it as a method of rationalizing the allowing of wage increases which are not approvable under the present stabilization rules of the Board.

Is the automatic adjustment of wages to an assumed rise in productivity really inflationary? The answer to that question depends in the main upon whether the automatic adjustments of wages causes wages to go up faster or slower than they would otherwise rise. Consider a five-year contract, such as the one negotiated between General Motors and the United Automobile Workers. The provision for an automatic adjustment of wages to a productivity factor (plus an additional adjustment for changes in the consumers' price index) is a condition of the willingness of the union to sign the five-year contract. The union must consider whether a series of shorter contracts would probably enable it to negotiate in the course of five years larger wage increases than it would obtain from automatic increases based upon an improvement factor. And the management must consider the same question. Hence, is it not true that neither side would accept a long-term contract with an improvement factor which would yield results less favorable to it than it estimates would be yielded by the usual bargaining at the renewal of a series of annual or two-year contracts? Must not one then conclude that the adjustment of wages to an annual improvement factor is likely to have a negligible effect on the movement of wages?

Such a conclusion would be close to correct, but not quite correct. Long-term contracts have particular appeal to managements because they relieve managements to some extent of the burden of negotiations which take the time of busy officials from routine operations. Long-term contracts, however, do not have an equal appeal to unions. In fact, they have important disadvantages from the union point of view. The expiration of a contract is always a time when the members of the union take an increased interest in its affairs. A long-term contract makes it harder for the union to keep its members interested in the organization. And the negotiations, which are pretty much a burden to the busy operating officials of a corporation, give the officials of a union an opportunity to demonstrate their capacities to the members. Just as the annual income report of the corporation reveals the capacity of the management, so the outcome of wage negotiations reveals the capacity of union officers.

It must be remembered that union officers hold their jobs as the result of some kind of an election—by vote of the rank and file or the votes of delegates to a convention. Consequently, union officials cannot be expected to accept the automatic adjustment of wages as a substitute for either a short-term contract or a wage-reopening clause unless the automatic adjustment is expected to yield a slightly larger wage increase than negotiations would have yielded. Hence automatic wage adjustments based on a productivity factor are likely to make labor costs rise a bit faster and thus to require a slightly faster rise in prices.

There is another respect in which automatic wage increases based on an improvement factor are likely to be inflationary—at least if they ever become quite widespread. These increases are made every year regardless of business conditions. Hence they mean that wages may be raised in periods of business recession when prices are dropping. Despite the fact that output per manhour is rising, wage advances in periods of falling prices could creat serious financial difficulties for many enterprises. Hence the widespread adoption of productivity wage increases would require that the government intervene more aggressively than ever to halt recessions in business. The result would be an even stronger tendency for the long-run movement of prices to be upward.

What will be the net effect of these new deflationary and inflationary influences upon the economy? The repayments on debts, the growth of pension funds, and the stiff tax rates on personal and corporate incomes will limit the vigor of booms and will help prevent booms from becoming runaway. The effect of these three deflationary influences in limiting the vigor of booms will be offset to some extent by uncontrolled installment credit and real estate credit in times of boom and perhaps also by the policy of supporting farm prices at high levels. The parity levels are so high in relation to the cost of producing farm products by modern methods that support operations may occur even in periods of high employment.

The absence of effective controls of installment and real estate credit will tend to make contractions more severe because the lack of controls will permit a bigger volume of debt to be built up during booms. The stiff progressive income tax rates will have the opposite effect since they will reduce the cyclical fluctuations in personal incomes after taxes. The policy of supporting the prices of farm products at high prices will increase the outlays of the Federal government in years of contraction and thus will limit the contraction of income in those years. Wage increases based upon productivity are likely to impair the

credit position of weak companies in periods of contraction, and thus to require larger government spending (or greater reduction in taxes) to prevent the depression from becoming worse.

The total effect of the new deflationary and inflationary influences upon booms, will be to make booms a little easier to control. The net effect of the deflationary and inflationary influences upon the severity of recessions will be negligible—the effect of the stabilizing influences being pretty much offset by the effect of the unstabilizing ones. The long-run effect of automatically increasing wages by an annual improvement factor will be to make labor costs and hence prices rise a little faster.

VII

What is happening to the capacity of the economy to grow? The economy has been rapidly gaining in its capacity to grow. This is one of the most important developments of recent years and one which has been greatly stimulated by the defense program. The gain in capacity to grow is partly explained by the enormous expansion of scientific and technological research and partly by the development of new economic policies and new credit instruments and policies. Let us look briefly first at the capacity of the economy to increase the supply of goods and second at its capacity to increase the demand for goods.

The capacity of the economy to make goods has been growing rapidly because of the extraordinary growth of industrial research. I have expressed doubt that the apparent rise of about 5% per manhour in the output of the private economy during the last two years or three years represents solely a gain in efficiency. To some extent it probably reflects a change in the kinds of goods produced. Nevertheless, one may conservatively estimate the growth in true productivity at no less than 2.5% per year, and the country is undoubtedly increasing its ability to raise the rate at which efficiency grows. The basis for this growing ability to increase productivity is the expansion of industrial research. I have already called attention to the remarkable increase in the number of natural scientists and engineers. They are three times as numerous today as in 1929-30. Expenditures on industrial research have also grown rapidly. Figures on expenditures are not too satisfactory, but outlays on technological research by industry are around six times as large as they were twenty years ago. The expenditures of the government on technological research, most of which has industrial applications, are even larger than the outlays of industry.

What is happening to the capacity of the economy to increase the demand for goods? The greater the success of industry in raising the output of goods, the more important it becomes for industry to raise the demand for goods. Does industry have adequate capacity to increase the demand for goods? These will prove to be very practical questions when the volume of defense spending begins to slide off some time after the elections in the fall of 1954.

In an economy such as ours in which wages rise even faster than output per manhour an increase in the demand for goods must take the form of rising money expenditures. Since the expenditures of a given year are also the incomes of that year, a rise in expenditures cannot occur unless some people are willing to spend today a little more than their recent incomes. They can do this to some extent by drawing down idle balances. In the main they must do it either by saving less or by borrowing from banks. If individuals save less and spend a higher proportion of their incomes for consumer goods, they increase the necessity of business concerns financing some investment by borrowing from banks instead of using the savings of individuals. Or individuals or enterprises might increase their spending by directly borrowing from banks.

The economy is better able today than ever to expand the money demand for goods and thus to create markets for more productive capacity (1) because it is better able than ever to induce individuals to reduce their rate of saving in order to buy goods; (2) because it is better able than ever to offer individuals attractive credit arrangements which induce them to spend more than their incomes; (3) because it is better able than ever to create investment opportunities so rapidly that these investment opportunities exceed the current flow of savings and must be financed in part by the creation of money; and (4) because it has adopted the policy of fighting recessions by government deficits created by increases in government spending, by tax cuts, or by both.

(1) **Inducing individuals to save a smaller proportion of their incomes.** Technological research, by helping business concerns offer new and more attractive goods, helps industry reduce (or at least hold down) the rate of personal saving. The lower rate of saving, as I have pointed out, increases the necessity of financing some investment by an increase in the money supply.

(2) **Offering individuals attractive credit arrangements which induce them to spend more than their incomes.** The development of installment credit and recent improvements in real estate credit (particularly the long-term mortgage amortized by modest annual payments) encourage individuals to go into debt and to spend more than their incomes. Indeed, I believe that the new credit arrangements for financing the purchase of durable consumer goods and real estate are too attractive and are likely in boom times to cause too many people to go into debt, too rapidly, thus causing demand for goods to outrun supply and making prices rise faster than labor costs. Consequently, I believe that the Federal Reserve system should have authority over the terms of installment credit and real estate credit.

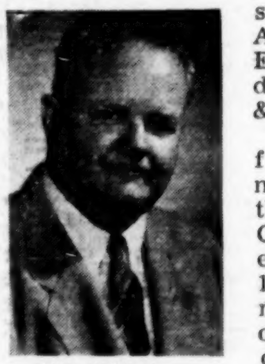
(3) **The rapid creation of investment opportunities.** The large scale of industrial research causes investment opportunities to be created rapidly. There is a good chance that the creation of investment opportunities in most years will be rapid enough so that they must be financed in part by credit —that is by expansion of the money supply.

(4) **The adoption of the policy of fighting recessions by government deficits created either by increases in government spending, by tax cuts, or by both.** To this should be added the addition of a few other arrangements for keeping recessions mild. Unemployment compensation is an example. Pension plans are also an example because they permit contractions in employment to be met in part by retirements instead of layoffs, and the man who retires on a pension has a more lasting source of income than the man who draws unemployment compensation. At any rate, in so far as the community develops ways of limiting the severity of recessions, it reduces the rate of return that enterprises need to earn in good times in order to induce a given volume of investment. Thus it increases the number of investment opportunities that are attractive. To some extent, the volume of saving is increased also but net effect of reducing the severity of recessions is to increase the extent to which credit neeeds to be used to finance investment opportunities and thus to increase the volume of spending in the community.

I close these remarks by calling your attention to the fact that my discussion of the capacity of the economy to grow relates only to the question as to whether the economy in recent years has increased its capacity to raise output per manhour and to provide markets for the larger product. I have not discussed the closely-related and important question of how the economy gets the right rate of growth—not too much and not too little. Perhaps we do not need to worry about that problem. Nevertheless, one would be unduly optimistic to **assume** that the capacity of the economy to expand supply and its capacity to expand demand will necessarily be equal and that the expansion of demand and supply will always proceed at the same rate. The exploration of the problem of how to get and keep a balanced and steady expansion of both demand and supply should attract the best efforts of all those who are interested in the fundamentals of our economic system.

Customers Brokers Elect New Officers

Marshall Dunn, Wood, Struthers & Co., was elected President of the Association of Customers' Brokers at the annual meeting held Sept. 24, succeeding Alfred M. Elsesser, Kidder, Peabody & Co.



Marshall Dunn

Other officers and members of the Executive Committee elected to the 1952-53 administration of the Association were: T. Alvah Cowen, Peter P. McDermott & Co., Vice-President; Edward S. Wilson, Reynolds & Co., Secretary; William Specht, Jr., Hay, Fales & Co., Treasurer; Alfred M. Elsesser, Albert P. Gross, Stearns & Co.; Allan Poole, Hemphill, Noyes & Co.; Stanley Graff, Foster & Adams, and Mrs. Evelyn Brant Valverde, Gruntal & Co.

An award of a gold combination key, knife and pencil, donated by Herbert Filer, Filer, Schmidt & Co., was presented to Thomas B. Meek, Francis I. du Pont & Co., in recognition of his outstanding contribution of work on behalf of the Association since its founding in 1939.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of Frank W. Tindle to Albert W. Franklin will be considered by the Exchange of Oct. 9.

Gamwell & Co. was dissolved Sept. 30.

William C. Karlson retired from partnership in Lamson Brothers & Co. Sept. 30.

William H. Burnham withdrew from limited partnership in F. S. Smithers & Co. Sept. 30.

With Cyrus Lawrence

Cyrus J. Lawrence & Sons, 115 Broadway, New York City, members of the New York Stock and Curb Exchanges, announce that Joseph A. Beisler has become associated with the fim in the investment advisory department.

Securities Salesman's Corner

By JOHN DUTTON

Mr. Donald Cook, who is Chairman of the Securities and Exchange Commission, was within the scope of his authority, and I believe was also doing his duty, when the recently suggested that there are still some abuses in the sales procedure involving Mutual Funds. He also mentioned certain developments within the industry that might be potential sources of criticism and public condemnation later on. The Commission has the job of policeman, and there are times when it is necessary for some "whistle blowing." No business can be without some sore spots that crop up from time to time. People in the Mutual Fund business know of some questionable actions by a limited few that right now are being privately condemned by the soundly operated majority of fund managements.

It is hoped that Mr. Cook will not make mountains out of molehills. It is therefore desirable to call attention to certain conditions that can be remedied by sensible and cooperative action within the industry itself and in cooperation with the Commission.

The Future Demands Caution

Those who have lived through the past 25 years, and who have been associated with the investment business during this time, realize that the good start toward public acceptance of the Mutual Fund idea could be seriously retarded in the event that a general business recession came about. If the stock market someday takes a tumble, and as a consequence it is necessary to liquidate large blocks of listed securities in order to redeem Fund shares that might be unloaded by a panicked investment public, there could be some red faces among those who have "oversold" the admitted advantages of Fund investment, and meanwhile neglected to prepare their clients for such an emergency.

Those who think that sort of pessimism is unwarranted will no doubt pooh-pooh any idea that people should be prepared for any eventuality.

Sound sales psychology, however, builds not alone for today but for the tomorrow to come. If a severe business recession can be avoided in the future we all hope that it will be done. But if one does come, and you have not prepared your clients well in advance of the event so that they will not be forced to liquidate their sound investments at panic prices, because they have both the reserves and the understanding of such matters to carry them through that period, you may regret it.

Why go out on a limb? Mr. Cook is right, in my judgment, to call attention to this matter of selling anyone too much of any fund where it leaves them in a position that they might have to sell out someday to secure money for an emergency. Mutual Fund investments are for the long-term. They are not suitable for primary reserves. Any one who does not have sufficient primary reserves, in addition to their common stocks and real estate, is going to sea without a lifeboat.

The Treasury Made This Same Mistake

One of the reasons why the general public have become somewhat soured on E bonds is that they were oversold. First of all, during the war, the Treasury agents and their propaganda departments actually romanced the so-called postwar future that could be obtained by the millions of average people who bought Savings Bonds. There was the little home around the bend of the hill, with all the gadgets. All you had to do was to buy a bond a month, save your money, get back "four dollars for every three" you saved, and move in. When the war ended, the house was farther away than ever and so were the gadgets. First, there was a great shortage of these items for many years. Now when they are available, everything is so expensive that today's four dollars buy only $2.40 worth of that now slightly shopworn rainbow.

When you go out to do a wholesale selling job among millions of people who have not invested in securities before, and you put that great faith and confidence which they have in the word of their own government to such a test as this; and then they find out there was something *left out of the story—something that should have been told to them but was not*—you are sooner or later going to run into trouble.

E bonds are all right. No one criticizes that part of it. But they were never an inflation hedge. They are a deflation hedge.

Prohibition Is Not the Answer

When I was a boy I used to see drunks on the street almost every pay day. We lived in an average Ohio town. There was local option. The liquor industry became so calloused to its responsibilities that public clamor, during a period of war hysteria, brought about that sordid era when the government undertook to legislate the human appetite. Of course, it was a dismal failure, but it took years to clean up the mess and put the liquor business back on the relatively high plane where it is today.

If we are going out to sell three billion dollars of Mutual Funds, or six, or ten billion more—and that may come—let us show the way to the public. Let us not expect the government to do this for us.

NY Bond Club to Hear Charles E. Wilson

Charles E. Wilson

Charles E. Wilson, former President of General Electric Company, will address The Bond Club of New York at a luncheon meeting to be held at The Bankers Club on October 16, it was announced by Joseph A. W. Iglehart, President of The Bond Club.

S. C. Robinson With Frederic H. Hatch

Frederic H. Hatch & Co., Inc., 63 Wall Street, New York City, announce that S. Charles Robinson has become associated with the firm as a Vice-President. Mr. Robinson formerly was with Kidder, Peabody & Co.

Continued from page 4

Industrial Applications Of Atomic Energy

Bechtel; Detroit-Edison, and Dow Chemical. On the basis of their findings, some of these organizations have already expressed interest in proceeding further with investments of their own funds.

Some of the organizations are showing an interest in a program supported partially by themselves and partially by the government. Proposals indicating a possible mutual approach would have the AEC finance the construction of the reactor and chemical processing plant, and the industrial firm finance the power plant equipment. In such a case the AEC would furnish the industrial concern with unspent fuel elements and purchase from them the spent fuel elements containing plutonium. The AEC would do the chemical processing. These proposals, I am sure, are still in the tentative stages and are still being studied and discussed by the Commission and the industrial concerns.

Feasibility of Nuclear Power

There are three major factors to bear in mind in considering the feasibility of nuclear power.

(1) As I mentioned previously, besides producing heat in a nuclear reactor, other nuclear fuels, such as plutonium, can be produced concurrently. Plutonium is a vital material in producing atomic weapons. At the present time it appears that power can be produced from nuclear sources at a competitive cost to power from conventional sources provided a portion of the cost is borne by the sale of plutonium to the government for military purposes. If military requirements for plutonium are eliminated, the picture at this time would not be as promising. However, there is probably no device so readily adaptable to both peace and war as a nuclear reactor.

(2) The economics at present should not discourage interest. Emphasis has been placed just recently on production of economical power. All new developments are expensive in their early stages. There are many new developments and processes being studied that may well lead to very satisfactory results.

(3) Further, cost is not the only parameter involved, and one should not lose sight of the advantages possessed by a nuclear power plant in remote areas where either coal, oil, or gas is not available and transportation of these conventional fuels is extremely expensive or perhaps even impossible because of their great bulk. Nuclear fuel is extremely compact as can be seen from the figures quoted earlier on the available heat per pound.

Now, while tomorrow will unquestionably bring forth numerous other industrial applications of nuclear energy from the laboratories of the Commission and industry, I feel that the most promising industrial application of nuclear energy will be in the production of useful and competitive power.

In saying this I am not discounting the important application of nuclear power for the propulsion of naval vessels and aircraft, for in this national emergency, the atomic energy project is naturally focused on military application, and neither the world situation nor the character of our establishments indicates that this emphasis will be of short duration.

I say this because I feel it is entirely feasible and possible to design and construct a nuclear plant which will produce power and plutonium simultaneously and at competitive prices.

I would now like to spend a few minutes on the kind of question that usually comes up after a discussion of this kind by engineers and industrial concerns. "How do we get into this business to see if it has any promise in our special field of endeavor?"

I might add at this point that in the last year or so several large concerns have asked the same question and only two weeks ago a representative of one of the largest industrial firms in the country called me to find out how they should go about officially expressing their interest to the AEC about a particular industrial application of nuclear energy to one of their many fields of endeavor and how to keep abreast of the progress in this field.

Now while the Commission has a number of nuclear power projects for the propulsion of naval vessels and aircraft, it has no interest as yet in the particular application suggested. But the point I want to make here is that finally the idea of "getting in on the ground floor" is beginning to rumble. No industrial concern knows just what the atom will mean to them, but they apparently don't want to be left behind when the parade starts. As Commissioner Glennan well put it in his talk to you last November, admittedly the parade has not started yet, but from time to time we begin to catch the distant rumble of processional drums. The rhythm of the drums is now more pronounced.

To get very elementary on the business of how to get into atomic energy work, let us ask and answer some rather simple questions, and I assure you that if this fails to answer your particular question or problem, I will do my best to help you at the conclusion of this talk.

Q. **What companies are eligible to work in the atomic energy program?** The answer to that is, **almost any type of industrial firm.** For large specialized projects a specific type of experience may be required, but many of the industrial services and products sold to the AEC are those routinely sold by industry.

Q. **What should a company do to find out if there is business for it in the atomic energy program?** Your best bet is to inquire at the nearest Operations Office of the AEC. There are in the Commission eight Operations Offices: three are production centers for 235 and Pu; these are Oak Ridge Operations, Savannah River Operations and Hanford Operations; New York Operations Office handles our raw materials; Sante Fe is our military applications laboratory; Idaho our Reactor Testing Station; Schenectady Operations, mobile reactor development; and Chicago Operations Office, handles practically all of the research and development work on mobile and stationary research and power reactors and accelerators. For specialized contracts, the Commission examines the qualifications of many companies. Therefore, it is imperative that we be aware of the abilities of interested concerns. Frequently one can learn about equipment and supply and other unique needs and about special engineering problems by contacting an Operations Office.

Q. **What about secrecy? Is it a barrier for uncleared companies wanting to work in the program?** Secrecy is always a hindrance to over-all progress in any field and atomic energy is no exception, but it is not much more than a nuisance to an individual company working in the field. When it becomes necessary for the Commission to contract with an uncleared company to do classifield work, which is often the case, we can arrange for prompt clearance of the company officials to carry out the preliminary classified discussions. This can be done and is done quite frequently to save time when it is imperative to move rapidly.

Q. **What opportunities are there for a company to do atomic energy work in its own industry apart from the Government program?** There are several possibilities, for instance, a number of companies have taken advantage of atomic energy development and have placed various devices on the market such as the marketing of electro magnetic pumps and flow gauges for handling liquid metals; the marketing of a small cell which produces accurate voltages, since it is possible to generate small quantities of electricity directly from nuclear radiation. Commission-supported work has also yielded results in producing medication as an antidote for over-exposure to radiation, and it is conceivable that commercial production of large quantities of such substances will be required. Then there is the work with, or related to, radioisotopes, and nuclear reactor technology. Many companies are already putting radioactive materials to use in their own work, such as radioactive cobalt, which is produced in nuclear reactors in increasing quantities, is a substitute for radium in industrial radiography where its penetrating gamma radiation is used to detect flows in metal casting and welds, studies in engine wear and lubrication by radio tracer techniques. Tracers have been used in following oil flow in pipe lines. In the rubber and rayon industries, tracer isotopes are being used in fundamental research, etc. Radioistopes for medical purposes; — radioisotopes as tracers in studying what types of fertilizers are most useful for certain plants. For example, minute quantities of radioactive materials are added to fertilizer. The plants are fed these fertilizers and a measure of the absorption of fertilizer by the plants is obtained by measuring the radioactivity of the plant. Measuring the durability of different types of paints and varnishes by adding small amounts of radioisotopes;—for example, a varnish is applied to a surface which is rolled with heavy rollers and a measure of the adhesion to the surface is obtained by measuring the radioactivity picked up on the rollers. There are too many to mention here, but a number of other applications should find their way into industry very shortly. In the case of reactors, industry is just beginning to scratch the surface of the nuclear power possibilities and isotopes production.

Q. **How can a company keep abreast of the work in the field of nuclear energy or train a man, if possible?** There are several ways:

First, you may assign one of your bright young engineers to the task of keeping abreast of the literature now being published in this field. A request to the Technical Information Service of the Commission will tell you how this may be done.

Second, you can, and probably should, farm out one or more of your bright young engineers or scientists for a period of a year or two to one of the Commission's organizations carrying out the research, development and construction of our reactors. Some of these organizations I am sure you have heard of, such as the Argonne National Laboratory, the Oak Ridge National Laboratory, the Laboratory at Bettis Field operated for the Commission by the Westinghouse Corporation for the engineering and construction of reactors for the propulsion of naval vessels. The advantage of this course of action is quite obvious, for your men will be right on the ground floor working on specific projects of importance to our program and our country and at the same time reaping first-hand knowledge of the business which is really one of the best ways to learn whether nuclear energy has any application to your particular field of endeavor.

Third, you can send one or more of your engineers or scientists to the Oak Ridge School of Reactor Technology to take a one-year course in practically all aspects of reactor technology. The course which ended during the summer of 1952 was taken by 67 students. Of these 38 were recent college graduates, 23 were from industry, two from the Navy, and four from the Air Forces.

You might be interested to know that the number of experienced men from industry taking the course is increasing, since 50 are enrolled for the year beginning in September, 1952 along with 30 recent graduates. The students include graduates in Chemical, Mechanical and Electrical engineering as well as a few in physics and chemistry. Instruction at the laboratory places emphasis upon application, but reactor theory is included to the extent necessary for the students to develop skill and apply the principles of reactor physics to reactor engineering. The requirements for admittance to the school at Oak Ridge are very high. Therefore, it will be necessary that you select exceptionally well qualified candidates. The procedure is about like this:

(1) By March 1 of each year you must submit applications. This early date is important so that security clearance may be obtained for successful candidates. The applications must be accompanied by complete transcripts of academic records, references, and statements by the candidate and employer as to what each expects to obtain from the course.

(2) The applications are then reviewed and acted upon by a Committee on Admissions for the Reactor School. Last year, I am told, there were approximately 400 applications of which the Committee accepted 75.

Fourth, you can send a man to Oak Ridge to take a four-week course in radioisotopes techniques given by the Oak Ridge Institute of Nuclear Studies.

These are but the known ways today of getting into the nuclear energy field to see if it holds any promise in your especial field of endeavor, and it does not mean that more ways or avenues will not be opened tomorrow;—so if you have the desire to explore, participate, or keep abreast in this important field of work (and you should) and have a problem or situation that does not fall into any one of the categories I mentioned, the Washington Office, the Chicago Operations Office, and I am sure, the other Operations Offices of the Commission will be only too glad to discuss your particular problem with you to see if we cannot help you find a solution. You will be interested in knowing that there has been established in Washington the Office of Industrial Development, headed by Mr. W. L. Davidson, which reports directly to the General Manager. A positive effort to single out ideas and techniques developed in the atomic energy program which might have industrial applications, will be the main function of this office.

Conclusion

I do not have to stress to this group the very real energy shortage that we face in the future. Last year's output of electric power was 432 billion kilowatt hours, but even with this tremendous output and our constantly expanding capacity, we are just barely meeting the ever increasing demand. Look at the AEC as a power user. In a few short years our industry's power consumption has jumped from nothing to the point that we are the largest single power customer in the nation. This is just one case.

If one looks about for a substitute for carbon fuels—there is only one that is now ready and able to go to work—that is the atom.

In view of the recent rapid advances in reactor technology, I believe that the possibilities of nuclear power are very real and that individual engineers, industry and privately owned utility companies cannot afford to neglect their opportunities to keep abreast of developments in the field.

Milton Capper Forms Own Firm in New York

Milton Capper

Milton Capper has formed Capper & Co. with offices at 29 Broadway, New York City, to engage in the investment securities business. He was formerly a partner in Edelmann & Capper. Mr. Capper is a member of the Security Traders Association of New York and the New York Society of Security Analysts.

Harold Brayton Joins William R. Staats Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—Harold Brayton has become associated with William R. Staats & Co., 111 Sutter Street. Mr. Brayton was formerly with Francis I. duPont & Co. and Bacon & Co.

S. K. Evans Realty Co.

PATERSON, N. J.—The S. K. Evans Realty Company is engaging in a securities business from offices at 563 East 32nd Street.

John H. Harke Opens

MIAMI, Fla. — John H. Harke has opened offices at 40 Southeast Sixth Street, to engage in the securities business. Mr. Harke was formerly with Bonner & Bonner and Francis I. duPont & Co.

With Carroll, Kirchner

(Special to The Financial Chronicle)

DENVER, Colo.—Sam Levy, Jr. has become associated with Carroll, Kirchner & Jaquith, Inc., Patterson Building.

With Investment Service

(Special to The Financial Chronicle)

DENVER, Colo. — Mrs. Marian P. A. Miller is now connected with Investment Service Corporation, 444 Sherman Street.

With Waddell & Reed

(Special to The Financial Chronicle)

ATLANTA, Ga.—Ben I. Texler and Bernard M. Tesler have joined the staff of Waddell & Reed, Inc.

Yes, But . . .

"When he [the consumer] pays a high price at the retail store, how much of that price does the retailer get? How much does the wholesaler get? How much goes for transportation? How much did it cost the manufacturer to produce the product and, of those manufacturing costs, how much went to labor, to materials, to overhead, etc.? . . .


President Truman

"In the first place, we need the information to help in settling labor disputes. Both sides in a dispute usually present their own estimates of how much a given wage increase would affect labor costs, profits and prices. And they they spend a lot of time arguing about which estimates are correct.

"Particularly in these days of preparedness, when it is essential to settle labor disputes as promptly as possible, we should have available a set of agreed-upon facts. Such facts would also be useful in the task of keeping prices from rising further. . . .

"Powerful interests are at work trying to convince the consumer that it is the farmer who is responsible for the high cost of living. Figures of the Department of Agriculture, however, show that the farmer receives only about half of the consumer's food dollar and far less for other products such as cotton and tobacco. Let us get the full facts on where the rest of the consumer's dollar goes."—President Truman in a letter directing the Federal Trade Commission to undertake an extended study of these questions.

We hardly need comment upon how foreign such matters are to the duties and functions of the Federal Trade Commission as originally conceived by President Wilson.

Such data as these—if any way can be found to obtain them—would be useful of course, but we doubt if they would have much influence upon the behavior of politicians and others who control decisions such as those referred to by the President.

Continued from page 2

The Security I Like Best

being the only quarter since the first that this would be true.

In the first six months of 1952 the company earned $1.22 per share in spite of strike conditions or more than enough to cover the entire year's dividend requirement of $1.00 per share. Estimates for the third and fourth quarters are not yet available but it seems reasonable to expect that allowing for the shut down in July, the higher wage costs, etc., the showing for the second half should approximate that of the first half and could be better. The year 1952 as a whole should be regarded as sub-normal because of the strike conditions in steel and because of other conditions over which management had no control.

During the current year excellent progress has been made in the modernization and expansion program which has been underway for the past two years. This represents an outlay of roughly $2,100,000, all of which has been accomplished without financing of any kind. This program is scheduled for completion around the end of the year and was designed to enable the company to meet competitive conditions better than ever before.

For the longer term ahead one can only generalize. It does appear at this writing that the defense program looms large in our economy for a long time to come. Refractory products are used in a wide range of diversified industries but they are essential in those heavy industries on which the defense program leans so heavily. I would expect therefore that a substantial volume of business for the refractory industry is in sight for the foreseeable future.

The North American Refractories Company will reduce its debt further during 1952 and should increase the asset value of its stock through retained earnings in spite of having passed through a difficult year. I continue to regard the common stock as under-valued at its current quotation around 15¼ in view of its asset value of over $35 per share, its demonstrated earning capacity over the years, a current yield of almost 7%, the essential character of the industry, the strong financial condition of the company and its construction program to strengthen itself for the future.

Roosevelt & Cross Add R. S. Griffiths

Roosevelt & Cross, Incorporated, 40 Wall Street, New York City, announce that Richard S. Griffiths is now associated with the firm. Mr. Griffiths was formerly with Tilney and Company.

Elliot Holt

Elliot Holt, formerly officer of Henry Holt & Co., publishers, and in the past a partner in Montgomery, Scott & Company, ended his life at his home in Stowe, Vermont.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market is still under the influence of the tight money policy of the authorities, the refunding operation, new money raising and nonbank investor preference for other investments. All of which seems to indicate that quotations of Treasury obligations are quite likely to remain on the defensive until some, if not most, of these depressants have been relieved. The shorter end of the list still gets the bulk of the attention because the preference is for liquidity. There appear to be no immediate changes in sight for this condition. The intermediate and longer term obligations continue to be on the inactive side as a whole, and this makes them rather susceptible to the usual quotation manipulations which has resulted in new lows for the year being made in some issues. However, the really basic reason for what is taking place in the higher income obligations is the absence of buyers of these securities.

There has been, according to reports, a minor pick-up in switches and swops which has increased volume and activity slightly. This trend, however, is still in the direction of shortening maturities. As has been the case, the 2⅜s of 1958 continue to be one of the best trading issues in the list.

Long Bonds Ignored by Non-Bank Investors

The pressure is still on in the money markets, and there appear to be no signs of an immediate change in this procedure. Although Federal is keeping money tight, as far as the deposit banks are concerned, it is the lack of nonbank investors' interest that is mainly responsible for the ragged performance that is being made by the longer end of the list. Institutional investors have been showing a great reluctance to make commitments in the longer term Treasury obligations because there are many other situations that are more attractive to them at this time. Private deals, corporate bonds, the housing obligations and other tax exempts appear to have the center of the stage, as far as the purchases of these institutions are concerned. There are also preferred stocks and equities that not a few of these nonbank investors consider more fitting to their requirements than government securities. Likewise there seems to be no shortage of securities (including another issue of the World Bank bonds) that will be of interest to these institutions in the immediate future.

Accordingly, it appears to be the opinion of quite a number of nonbank investors that the longer-term Treasury bonds will continue to drift, because of the lack of a real buying interest in them. To be sure, they are watching the trend of quotations in Treasury issues because there will be a time when these securities will be attractive again as far as they are concerned. Although it seems to be rather well recognized that the current course of events in the money market is temporary, nevertheless, a change is not being anticipated in the immediate future.

Corporations Welcome Tax Anticipation Issue

The Treasury announcement that there would be available $2,500,000,000 of tax anticipation bills (starting tomorrow through Oct. 8) was expected by the market. These bills will be acceptable at face value in payment of income and excess profits taxes due March 15, 1953. They will be dated Oct. 8, 1952, and will mature March 18, 1953. According to Treasury Secretary Snyder, this is the first step in the Treasury's Fall tax bill financing program. Further bills will probably be offered later in the year, but the next offering is not likely until sometime in November. Commercial banks will again be allowed to pay for the tax bills by crediting the government tax and loan accounts. The banks under such conditions put up only the required reserves against the deposits created through the purchase of these bills. The balance is due only when called upon by the Treasury, thus preventing a drain on bank reserves, which would result if the banks paid out cash for the bills they buy.

Corporations have in the past been large buyers of the tax bills, because it affords them an opportunity to earn interest on money they would normally put away for the payment of taxes. Under the government's accelerated tax plan for corporations in the payment of taxes, known as the Mills plan, 40% of the 1952 taxes will be due on March 15, 1953, and another 40% on June 15, 1953.

In October, 1951, the Treasury put out an issue of tax anticipation bills that matured March 15, 1952, and these were sold at a price equivalent to an average yield of 1.55%. The November, 1951 issue of these bills, which came due on June 15, 1952, went on a 1.497% basis. According to opinions in the financial district, it seems as though the impending offering of tax anticipation bills will get more realistic treatment than did the two previous offerings. Commercial banks, it is believed, will not put on the same push as they did to build up deposits created through the purchase of these bills, because in many instances they found out these deposits did not stay with them as long as they expected they would. However, there seems to be no question about the offering being a success even though the rate may have to be closer to the going market rate in spite of the advantages of the tax and loan account.

Despite the tightness in the money markets, which would ordinarily be favorable to an increase in the prime bank rate, there appears to be considerable question as to whether or not this will take place. If it should be raised and not maintained, this would not be a desirable development. On the other hand, it is believed in some quarters that the current 3% rate can be retained for a long period of time.

Phila. Investment Women's Club Offers Lecture Course

Eight lectures, sponsored by Phila.-Balt. Stock Exchange, to be given in 1952-53 season.

The Educational Committee of the Investment Women's Club of Philadelphia, the Chairman of which is Miss Marguerite Campbell, has arranged a series of eight lectures for the 1952-53 season, under the sponsorship of the Philadelphia-Baltimore Stock Exchange. The first lecture will be held on Tuesday, Oct. 7 at 5:15 in the board room of the Fidelity-Philadelphia Trust Co. The speaker will be Lincoln W. Hall, Trust Investment officer of the Fidelity-Philadelphia Trust Co., and his subject will be "Security Analysis—From the Point of View of a Trust Company."

The subjects of the other lectures will be *Security Analysis* (continued); *The Art of Selling Securities; Further Discussion on Selling Securities; Fundamentals of Trading in the Listed Market; Fundamentals of Trading in the Over-the-Counter Market; The Cage—Its Vital Place in the Business; A Further Discussion on the Cage—Its Functions and Responsibilities.*

The suggested time for the lectures—second and fourth Tuesday evenings, between 5:30 and 6:30, with possibly two in October and two in November. For 1953, two lectures in February and two in March, conforming the time schedule to the speaker's convenience.

Henry Edelmann & Co. Formed in New York

Henry Edelmann and Edward W. Russell, formerly partners in Edelmann & Capper, have formed Henry Edelmann & Co. with offices at 29 Broadway, New York City, to engage in the investment securities business.

L. R. O'Brien Opens

Leo R. O'Brien is conducting a securities business from offices at 39 Broadway, New York City, under the firm name of Leo R. O'Brien Co. Mr. O'Brien was previously with Brady & Co. and Cartwright & Parmelee.

Continued from page 7

The Savings Banks Approach To Equity Investment

has been inadequate and that lack of such capital in desirable volume has been a factor contributing to economic instability. It is of interest to observe that in the arguments advanced in the debate on the savings bank equity bill before the New York State Legislature early this year considerable emphasis was placed upon the desirability of stimulating the mobilization of equity capital even to the limited extent possible under the pending bill. Within the limits of conservative equity investment powers for the savings banks such as those provided in the recently enacted New York statute these institutions would be in a position to make some moderate contribution to the mobilization of equity capital.

Stock Investment Involves Added Risks

That equity securities involve risks in addition to those ordinarily confronted in bond and mortgage investment is a foregone conclusion. Equity securities involve no contractual claim to a fixed rate of return nor do they represent any obligation to repay a fixed sum of money. The position of the equity investor is purely marginal representing a residual interest in the earnings and assets of the issuer. Largely for this reason such securities are characteristically subject to wide fluctuations in market price.

The market for a common stock at any given time usually reflects a current appraisal of the value of future earnings and dividends. It is widely recognized that periods of prosperity are marked by high prices and generous dividends for common stocks while periods of declining earnings and recession are marked by falling or depressed prices. This radical characteristic of junior equities should be fully recognized in judging the propriety of such securities for savings banks and, of course due provision should be made to sustain such market fluctuations without embarrassment.

Savings Bank Objective

I cannot emphasize too strongly that the exclusive objective of savings banks in seeking equity investments should be higher yields or, giving effect to the recently developed factor of Federal taxation, higher after-tax yields. Savings banks should have no primary interest in capital gains either as a means of augmenting income or in an effort to provide some compensation for the forces of inflation. Our institutions are under no legal or moral obligation to protect depositors against an erosion of the dollar adverse as this may be to their individual interests. Our role in this respect should be to influence depositors with all the effectiveness at our command to take appropriate political action through communication with elected officials and thus attempt to strike the evil at its source. Savings banks seek only higher yields from investments in equities with the objective of increasing the over-all rate of return from earning assets.

It seems to me that under existing conditions savings bank investments in equities might well be largely confined to preferred stocks. Various analysts and students of the markets have at times criticized preferred stocks for their generally amorphous nature. It has been pointed out that they lack the advantages of common stocks in periods of prosperity whereas in periods of depression they may involve to a considerable extent the disadvantages of junior equities. To some extent this has been true in the past but there is little doubt that a carefully selected portfolio of preferred stocks of investment grades will provide a measure of protection greater than that to be found in common stocks and that such investments would fit appropriately into the equity investment program of a savings bank at this time.

Preferred and Common Stocks

Various characteristics commend preferred stocks to the conservative investor. Most such issues involve cumulative dividend features while another factor of strength is frequently to be found in the power to prevent the issuer from incurring funded debt without the approval of preferred stockholders representing a stipulated percentage, in most cases two-thirds, of the outstanding stock. An additional feature that has become characteristic of preferred stock financing, particularly in the case of industrial issues, is the so-called sinking fund or capital retirement provision under which, contingent upon the availability of earnings, a fixed percentage of the original issue is repurchased annually. This feature, despite the fact that the issuer sustains no obligation to redeem the shares as a whole at any specific date, gives the issue the semblance of a sinking fund debenture. Preferred stock issues with capital retirement funds usually command market yields somewhat below those of other issues.

It is well established that the market for high grade preferred stocks fluctuates in accordance with long-term interest rates and the various factors which influence the investment bond market. Thus the factors which strongly influence preferred stocks and common stocks are entirely different. From a market standpoint investment preferred stocks are unattractive at a time when the outlook favors higher interest rates and attractive with an expectation of lower interest rates.

Observation of the preferred stock market over a period would seem to indicate that an approximate minimum of one hundred points in yield should exist between an industrial preferred stock and a long-term bond of the same company whereas a differential of approximately one hundred and twenty-five basis points is indicated for public utility issues. The greater spread in the case of public utility issues reflects mainly the relatively heavy debt and preferred stock capitalizations of public utility companies and the characteristic absence of capital retirement provisions. These differentials in the case of new issues should be increased somewhat although, of course, market circumstances surrounding a new issue would be largely controlling. Furthermore, the advantage of preferred stocks to certain institutional investors under present tax laws is suggestive of an influence that may tend to reduce somewhat these yield spreads.

In the extensive and complex field of common stocks it is my opinion that under conditions of today the so-called "defensive" issues of which the public utilities are the most prominent example should constitute the bulk of any savings bank investment in junior equity securities. The outstanding stability which is characteristic of this industry together with its long record of steady growth and indications of an upward trend in business and earnings for an indefinite period would seem to commend its equity securities to serious consideration by investors seeking generous yields and a strong element of protection.

There are, of course, other industries of which the common stocks may be regarded as defensive, such as food and retail trade. Investments in such issues subject to conservative limitation and proper diversification would undoubtedly be considered as appropriate elements in a sound equity portfolio for a savings bank.

Much emphasis has been placed upon the so-called "growth" stocks which over extended periods have produced both generous returns in dividends and substantial capital gains. In these industries due principally to intensive reinvestment of earnings dividend payments are relatively low, the holders of such shares expecting ultimate benefit from market appreciation. To me it would not seem reasonable to criticize a savings bank management for some investment in such growth issues with respect to which initial dividend returns would be small but which in due course, with expected growth through re-investment of earnings, would probably produce a high yield on the original investment. However, the requirements of savings banks for adequate, continuous earnings would seem to assure that under a prudent policy investments in growth stocks would constitute a small percentage of total equity investments.

Importance of Continuing Study And Analysis

It should be appropriately emphasized in connection with equity investment that a thorough and extensive analysis of all pertinent factors bearing upon the position of an industry and of specific corporations within that industry is unavoidably necessary in accordance with a prudent policy. Although adequate analysis and investigation are obviously essential elements in sound bond and mortgage investment this is particularly so in the case of equities where the investor assumes the residual position of an owner in the enterprise.

Granting the experience of most New England savings bankers with commercial bank stocks, and to some extent other equity securities, I question whether or not the average savings bank is properly equipped to perform this vitally important function of investment management. Common stock investment in recent years has become a progressively professional activity as evidenced by the large proportion of transactions on the principal exchanges that are controlled through investment trusts, trust companies, private pension funds, endowment funds as well as other organizations representing collective investment. The importance of adequate knowledge of the many factors that must be given proper consideration in reaching equity investment decisions and, further, the necessity for a continuing and competent management strongly suggest the desirability of a mutual investment company such as that now being organized in New York State through which savings banks could solve this management problem collectively at very small cost.

Valuation and Reserves

In spite of all the precautions that may be observed in connection with selection and timing of equity investments, the risk of loss from market depreciation is an ever-present possibility which under prudent procedure requires adequate reserve protection. Recently the National Association of Insurance Commissioners recommended that life insurance companies set aside reserves against preferred and common stock investments in amount of one per cent of statement value annually until such reserves are equivalent to twenty percent.

Mutual savings banks in Maine and in the other New England States due to experience as investors in bank stocks are keenly aware of the necessity of appropriate reserves with respect to equity investments. The Investment Committee of the New York Association in carefully considering this subject pursued its investigation to the point of determining currently effective policies in various states in which savings banks are authorized to invest in stocks. It was determined that in general the policy of periodically writing down such investments to market or providing adequate valuation reserves is both favored officially and observed in practice.

Probably this matter should be left to the prudent determination of the individual management operating under the supervision of the state banking authorities. A reserve of one percent of book value annually covering both preferred and common stocks would seem to be sufficient. While this rate may be considered somewhat excessive with respect to preferred stocks it is probably commensurately inadequate for common stocks. Covering both types of investment, therefore, it would probably meet the test of adequacy. Obviously this reserve should be credited with profits resulting from the sale of stocks and should likewise be charged with losses. It would seem sound practice to report equity investments for statement purposes at the lower of book or market values.

Aspect of Timing

A cardinal objective in the development of an equity portfolio is to accumulate the stocks involved at the lowest possible average prices and, of course, at the highest possible yields. Certainly it should be a fundamental concern to avoid the acquisition of all or even a substantial portion of those investments at relatively high prices. Since fluctuating markets with occasionally wide swings are radically characteristic of equity securities—particularly common stocks — prudent procedure requires due care in the basis of accumulation to avoid unnecessarily high book costs. This is particularly so with the market for junior equities at a historically high level.

It has been the opinion of the Investment Committee of the New York Association from the beginning that the sound accumulation of an equity position would almost of necessity require a considerable period thus reflecting different market levels and successive phases of the business cycle. The most basic approach to the problem for the average bank is probably the operation known as dollar averaging with which I think there is general familiarity. The investment of a specific sum of money representing presumably a fixed percentage of the common stock objective over a period should result in fair average prices. This process is particularly desirable in periods of declining prices since the specific amount periodically invested will purchase an increasing number of shares as the market declines and therefore the weighted average result is lower than the arithmetic average of the prices paid.

Since all investment is ultimately a matter of judgment it is not inconsistent with the fundamentally sound principle of dollar averaging to point out that there may be times and conditions, justifying a prudent decision to depart temporarily from a strict adherence to this principle; thus an unexpectedly sharp or extensive decline in prices might justify some appropriate acceleration of purchases while, by the same token, a comparably sudden or extensive advance in the market might furnish the basis for a prudent decision to reduce or suspend purchases temporarily.

Formula timing plans involve techniques which have come into somewhat general vogue during the last 20 years or so among managers of university, pension and other institutional endowment funds in connection with common stock investments. The purpose of such plans is obviously to eliminate to a large extent the element of judgment in providing a mechanical determination for accelerating the liquidation of stocks in advanced phases of a rise and, of course, expediting purchases in corresponding areas of a decline.

The application of such a formula is intended to insulate the management from prevailing speculative attitudes or mental fixations that may reflect popular thinking and may even have statistical justification but which are not in consonance with a strictly prudent policy from the standpoint of the basic purposes and objectives of the fund. Such formulary plans, however, are necessarily subject to alteration in reflection of changes in underlying economic and political conditions. They almost unavoidably harbor defects which within the scope of a policy of prudent investment necessitate the intervention of judgment. "Do what you will, the capital is at hazard," was the profound observation of the court in the celebrated opinion in Harvard College v. Amory in 1830.

An Equity Statute—Prudent Investment Rule

A statute authorizing savings bank investing in general equity securities in my opinion should be simple, brief and to a large extent based upon the principle of prudent investment. Qualifications by the mechanics of a fixed statutory standard based upon past performance is in my opinion fundamentally unsound although it appears to have served rather widely a practical purpose in providing an assumed protection against possible misjudgments on the part of those responsible for institutional and trust investment. It has also proven a useful working instrument for the supervisory authorities in facilitating ready determinations as to whether or not a security conforms to a requisite quality standard.

To me this approach to the restriction of institutional investment powers is unrealistic and inconsistent with prudent investment procedure. It brings in its wake an illusory sense of protection and it inevitably engenders an unjustified dependence upon standards that are frequently of little ultimate significance in determining underlying investment values. It is of noteworthy significance that in recent years there has been an impressive growth in the list of states in which the statutes governing trust investment powers have incorporated the principle of prudent investment. A signal example is the State of New York.

Investment is not a science despite an occasional general statement to that effect. Investment is a dynamic art in which, in addition to basic facts, pertinent information and relevant interpretive data, the intangible factor of human judgment is usually a radical element. Investment is probably one of the last processes in the world that should be subjected to the Procrustean rigidity of a statutory formula and, by logical extension, equity securities in which the investor occupies the peripheral and sensitive position of owner subject to all the manifold risks inherent in such a position, would seem to be the last group of securities to which the arbitrary standard of a formula based upon historic performance should be applied. The more dynamic the industry or the more sensitive the security the less applicable is the process of qualification by formula and the more appropriate and significant becomes the prudent investment rule. Equity investment (of all

fields of investment) constitutes a dynamic, sensitive and intensive activity and should be based at all times upon adequate factual and informational resources as well as competent and informed interpretation of all relevant data. Only so, with professional management and expert guidance is an equity program, institutional or otherwise, likely to prove consistently fruitful and to serve those basic investment purposes for which it was designed.

Mutual Investment Company

The desirability of professional knowledge and skill in the selection and operation of a portfolio of common stocks strongly suggests that serious consideration be given to the organization of a mutual investment company as an appropriate device for the savings banks in the field of equity securities. I am not unmindful of the traditional independence and characteristic individualism of savings bankers in solving investment as well as other problems, but I submit that the highly specialized sector of the investment markets comprising equity securities—particularly common stocks—may well constitute for many banks a justifiable exception to a well established rule.

I raise the question as to whether or not for a savings bank of average to small size the cost of a really adequate supervisory background for a common stock program would be considered feasible in relation to an aggregate investment that would amount at most to a minor fraction of total assets of surplus and undivided profits.

It is through continuous, intensive, expert supervision in the form of competent analysis, extensive research and informed interpretation of all pertinent data that an investment company such as the organization now being formed in New York State would significantly serve the interests of savings banks in the field of equity securities. Thus potentially serious elements of loss would presumably be detected in their incipience as a protection to the fund and as an assurance that major depreciation due to deterioration in quality would be avoided.

A mutually owned investment company of the type to which I have referred would be of the open-end management type organized under the Investment Company Act of 1940, registered with, and subject to the regulations of the Securities and Exchange Commission. Presumably such a company would be subject to regulations of the banking department of the state and it would be qualified as a regulated investment company with the Bureau of Internal Revenue under the Internal Revenue Code.

Such a regulated investment company would be tax-exempt as to distributed income derived from interest and dividends if such distribution amounted to at least 90 percent of the total of such income. Capital gains, if retained, would be taxable to the company, while if distributed, they would be taxable to the recipient bank.

The management fee to be charged by the company for this investment service would presumably be moderate in relation to fees which are charged generally by management organizations for this purpose. It is pertinent to note that for 1951 the average management expense for five representative investment companies amounted to .47 percent of net assets.

As an open-end company its shares would probably be sold and redeemed at approximately net asset value although there would be a slight charge to cover brokerage commissions and taxes. Sale of the company's shares should involve no loading charge which for most management investment companies is an important although varying element, depending upon the size of the purchase, in the offering price of the shares.

There are various demonstrable advantages and economies in a professionally managed investment company to be owned exclusively by savings banks and organized for the primary purpose of investing from the standpoint of savings bank requirements and objectives in a diversified portfolio of investment common stocks. Such a company would provide significant diversification, especially for banks of small and medium size, and even for banks of large size of which the equity holdings might be relatively small.

Professional management and continuous supervision through trained personnel would be in a more favorable position than that of most savings banks to draw to greatest advantage upon available sources of statistical and other information; presumably most savings bank managements would not consider that they could afford the services of such specially qualified personnel in connection with investments that would amount only to a small percentage of assets.

The management of such an investment company would be guided to a large extent by considerations relating to the objectives of savings banks in equity securities. It would not be concerned with various phases of stock investment which, while of major importance to some investors, would be of no significance to savings banks.

The board of directors would preside over, and hold responsibility for, the management of such a company. Presumably this board would consist largely of officers of savings banks who by knowledge and experience would be qualified to discharge this responsibility and who would be well versed in the investment principles, practices and objectives of savings banks. The affairs of a mutually owned investment company would be administered with a detached objectivity apart from any influences in a savings bank.

Economy of operation should be an outstanding consideration in judging the desirability of a mutually owned investment company from the standpoint of savings banks in the field of equity securities. Having attained a practicable size the company should be in a position to operate a significantly diversified equity portfolio at a lower cost per dollar invested than an individual savings bank upon the assumption, of course, that the savings bank were to maintain adequate facilities in research and supervision.

As a result of favorable provisions of the Internal Revenue Code and the appropriate regulations of the Bureau of Internal Revenue pertaining to regulated investment companies such a mutually owned fund would provide for savings banks the outstanding tax advantages afforded by equity investments.

While the basic purpose of such an investment company would be to provide a significantly diversified position in a group of leading common stocks with the benefits of continuous expert supervision and professional management its legal range of investments would probably extend to all such securities, with certain appropriate exceptions, as are eligible for investment by savings banks.

Conclusion

A concluding emphasis may properly be placed upon the desirability of equity securities for savings banks subject, first, to appropriate limitations as to the total amount of such investments; second, to intelligent original selection and timing; and, third, prudent administration.

The inherent relative risks in stock investments as to market fluctuation can be significantly diminished through reserves, accumulated from income, to absorb market depreciation or losses.

Despite their traditional independence of action managements of mutual savings banks should give thoughtful consideration to the various advantages, particularly with respect to common stocks, of a mutual investment company to be organized and owned by, and to be operated in the exclusive interests of, mutual savings banks. A continuity of qualified management in this highly specialized field of investment could thus be made available to savings bank on an outstandingly economical basis.

Finally, stock investments whether direct or through the shares of a mutually owned investment company offer comparatively high yields and provide an investment medium of particular significance to savings banks of which the undistributed net earnings are subject to Federal tax from the standpoint of producing the maximum annual increment to surplus.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Bank Stocks

The increased dividend payment announced by the Chase National Bank was the most significant news development affecting New York bank stocks last week.

Not only did it center attention on the improvement which has and is taking place in bank earnings in the current year, but it also stimulated interest in the possibilities of similar dividend action being taken by other New York banking institutions in the period immediately ahead.

These developments, in turn, have generated increased interest in bank stocks with the result that shares have responded favorably and are now near the highest point since March, 1937.

This increased enthusiasm for New York bank stocks, in most instances, does have a solid basis in fact. Indeed, over the next three months it is almost certain that several institutions will take action to increase their distributions to stockholders either in the form of increased cash payments or stock dividends with the present rate being maintained on the increased number of shares.

Much, of course, will depend upon the attitude of directors as they approach the dividend declaration date and as they view the prospects for the coming year. Nevertheless, the favorable results achieved so far in 1952 and the outlook for the last quarter will also play a strong role in determining distributions.

It is in this connection that some of the operating results for the nine months ended Sept. 30 now being published may be reviewed. In many cases a favorable improvement in earnings has been recorded both in comparison with a year ago and earlier quarters of 1952. The leverage effect of higher interest rates and near record loan volume is being reflected in current operating results. It also points to a favorable period in the fourth quarter.

At the same time banks have held dividend payments to conservative levels. For example, a number of banks earned enough or almost enough in the first six months to cover full year dividends. For the nine months there should be a sizable margin over the existing annual distribution rates.

Capital requirements, of course, present a problem for a number of New York institutions. With risk assets increased substantially over earlier periods, it is vitally necessary to add to capital funds. Retained earnings offer a ready source of such capital. Thus some banks have retained a large portion of earnings in past periods for this purpose which has kept dividends lower than might have been justified on the basis of earnings alone.

Nevertheless, there is a desire on the part of most banks to have the stockholders share in the improved earnings. Also, the psychological influence of the Chase National dividend increase may be the spark which starts other institutions to thinking about their payments. For these reasons, it is likely that New York City bank dividend distributions may be liberalized.

Although there is no official indication at this time of the action to be taken by the different banks, some of the rumors which have been circulated include the following:

The National City Bank of New York has a total of 7,200,000 shares outstanding. Thus, a stock dividend of one-for-nine bringing the number of outstanding shares up to 8,000,000, seems logical. This would have the advantage of capitalizing a portion of earnings which would be desirable from the standpoint of loan operations. If a stock dividend is not declared, it may be that an extra would be paid. The next dividend meeting of the bank is the first week in December.

The Guaranty Trust Company of New York is currently paying a dividend of $3.50 a quarter or an annual rate of $14.00. This rate was established last March when it was raised from $3.00 quarterly. Payments this year, however, were supplemented with an extra of $2.00 a share in January so that total payments for 1952 will be $15.00.

The earnings showing of Guaranty this year have been good so that a sizable extra or some similar action to increase the distribution to shareholders is considered a likely possibility. The next dividend meeting of the bank is in December.

There are also rumors of stock dividends for banks such as Manufacturers Trust and Empire Trust. Others such as Bankers Trust have been mentioned as candidates for a year-end extra while larger extra payments are indicated for Irving Trust and Public National.

While increased dividend distributions may become fairly general among the banks, a number of institutions, because of present payments or recent dividend increases, are not likely to make changes. Nevertheless, the actions to be taken by several banks should prove pleasing to stockholders.

NYSE Now on 5½-Hr. Trading Session

On Sept. 29, trading extended one-half hour as per schedule. Keith Funston, President of the Exchange, see public's approval of extended trading.

The New York Stock Exchange on Monday, Sept. 29th inaugurated its 5½ hour trading session when the market was open from 10:00 a.m., to 3:30 p.m.

G. Keith Funston

Heretofore, the week-day trading session had been from 10:00 a.m. to 3:00 p.m.

Decision to extend trading hours was reached by the Board of Governors of the Stock Exchange at a policy meeting last July 17. At the same time, they also voted to close the Exchange every Saturday throughout the year.

The 10-to-3 trading session was first established by the Stock Exchange in 1873. In 1887, Saturday sessions were cut to two hours—ten o'clock to noon.

A program of closing Saturdays during the summer months of June, July, August and September, initiated in 1946, was adhered to this year. The last Saturday on which the stock market was open for business this year was Saturday, May 24.

Keith Funston, President of the Stock Exchange, said last July that the decision of the Board to extend trading hours "was based on the recently completed national survey of share ownership made by The Brookings Institution at our request."

In a brief statement Mr. Funston added:

"The action of the Board of Governors last July was an historic decision. It was reached only after painstaking inquiry into all the pertinent information available. I am pleased to say that the wisdom of that decision has been confirmed since then by communications we have received from the public as well as from many of our own members and member firms.

"The New York Stock Exchange is primarily a public service institution. We will continue to search out every available means of improving and strengthening our position as the nation's principal market place for securities."

Mr. Funston pointed out last July that the Brookings Survey showed the proportion of share-owning families to population is largest in the Far Western States and that the North Central States contain the largest number of share-owning families in the country. At that time he said:

"We believe we should make the facilities of the Exchange available for a longer period to people in the North Central and Far Western time belts."

Continued from page 15

How High Can Taxes Go?

so-called "substitution effect," a function of marginal tax rates) will society suffer a loss of production. In the third case, production is not affected either way. We do not in fact know enough about economic motivation to know which one of the three reactions will predominate.

It seems just as reasonable to suppose that the first and third will predominate as that the second will predominate. It may well be that the first reaction—to exert more effort — is typical of the great mass of workers, whose marginal income bears taxes of less than 50%. A study made at Harvard strongly suggests that the third reaction — where the profit motive is subordinated to the quest for power, prestige, and so on—is typical of the executive, managerial, and entrepreneurial groups who are subject to the high surtax rates.[7] The net incentive effects of the present level of taxes (leaving aside the adverse effects of defects in the tax structure on incentives) may well be such as to increase rather than reduced productive effort. As you look at your own economic (not emotional) reactions to higher taxes—not those of some hypothetical economic man—my guess is that you will find them fitting the pattern I have just suggested more closely than they fit Clark's assumed pattern. This is not to say that taxes make you happier. On the contrary. They dislocate your preferred way of life. But because you suffer, it does not follow that production suffers.

This brings us back to the clash between the individual's and the community's view of taxable limits. The pains of taxation are highly personal and individual and hence keenly felt by the taxpayer. The benefits, in contrast, are largely impersonal and collective and hence only dimly seen. They either accrue to the community at large impersonally in the form, for instance, of less inflation. Or they accrue to the individual only in the collective sense of, say, national defense. Or, when they do accrue to him more directly, they are only vaguely identified with the taxes that finance them. Small wonder, then, that the political will to tax runs out considerably sooner than the economic capacity to tax.

These are the hard facts faced by those who would reduce the taxpayer's resistance by educating him in the virtues of taxation. War, of course, educates him quickly because it dramatizes and makes more real the identification of the individual's interests with those of the community. But short of war or its threat, the process of e d u c a t i o n, though worthwhile, is slow. Political limits to taxation are correspondingly slow to expand.

Government Expenditures and Taxable Capacity

The level of government expenditures was given first place on the list of determinants of how high taxes can go in order to emphasize an aspect to tax limits that is often misunderstood or overlooked. Fundamentally, in a full-employment situation, it is the additional government expenditures, not taxes, which create the stresses and strains on the economy. Additional taxes abate them. The added expenditures generate inflationary pressures, add to the public debt, and enlarge the fund of liquid assets. The added taxes abate those pressures and prevent or retard the growth of debt and liquid assets.[8] At levels of defense spending we have thus far experienced, therefore, the *prima facie* is for, not against, higher taxes—up to and perhaps somewhat exceeding the pay-as-you-go level. And the higher the government expenditure level in this setting, the stronger is the case for higher taxes.

This adds a positive dimension to the customary negative conception of taxable capacity. It suggests that we cannot judge the level of tolerance of taxation in a vacuum. We have to balance the evils of higher taxes as such against the alternative evils we avoid by imposing them. Additional government spending in an economy that is already stretched tight intensifies the evils of inflation and debt expansion and thus increases the benefits that taxes are able to provide. Or to put it in different terms, it increases the penalties we pay for *not taxing*. By increasing the virtues of additional taxes relative to their vices, the added spending increases the level of taxes which the economy can stand.

I have been careful to put this point in terms of the levels of defense spending to date. Certainly at some point—not in sight short of a much hotter war than we are engaged in today — the power of taxes to do good is outweighed by their power to do harm, even while taxes still fall short of expenditures. Two situations will make this readily apparent. One is a hypothetical situation in which additional taxes are no longer capable of abating inflationary pressures. If taxpayers were to maintain their spending in the face of the tax increases, say by drawing on liquid assets, and at the same time curtailed their output by withdrawing or misusing productive resources, the hypothetical situation would become a reality. Suppose that $1 billion of new taxes were to cut spending only slightly, say by $100,000, while cutting output by $200,000. At this point —far above 25% of national income, to be sure—Colin Clark's economic limit would take on substance.

The other situation is the actual World War II experience. During the peak year 1944, nearly half of the gross national product of the United States was purchased by government, and Federal expenditures exceeded 50% or national income. So far as I know, no responsible economist or government official believes that those expenditures should and could have been covered in full by taxes. The reasons for stopping far short of 100% coverage of total war expenditures are persuasive, and they shed much light on the nature of limits to taxable capacity generally. I shall come back to them after one or two further observations on expenditures.

The pressures created by high government expenditures have another type of impact on taxable capacity than the one we have just examined. In a fully employed economy, added government spending expands the financial tax base and in an underemployment economy, it expands the real tax base. To the extent that the tax-expenditure process makes possible the latter type of increase, its positive contribution to production may vastly outweigh any negative effect on productive incentives. In other words, through the stimulating effect of high expenditures on markets and production, and through the stabilizing effects on prices of the corresponding taxes, a major support is provided for a stable, high-level economy. Certainly the facts in both Canada and the United States since World War II are wholly consistent with such an interpretation. Side by side with the highest peacetime tax rates in history, both countries have also had by far the highest levels of real capital formation and civilian consumption in history.

Last May, in addressing the Minnesota Savings Conference, Professor Alvin Hansen put this in particularly effective terms. After pointing out that since 1940, side by side with huge military spending and high taxes, we have increased our output in the U. S. by 70%, doubled our manufacturing capacity, and invested (gross) almost $40 billion a year in 1951 prices, and still increased current consumption in real terms by about 50% since 1940—after citing this stupendous economic achievement, one I am sure Canada can readily match, Hansen went on to say, "Now this really does seem to be an Alice-in-Wonderland kind of economy in which the more we spend for defense, the more we have left for investment and consumption."[9] He went on to point out, that although it is fashionable to speak of the period since 1945 as one of continuous inflation, the record shows that of the 82 months from mid-1945 to spring 1952, only 26 were months of rising prices while the rest were months of pretty stable or even falling prices. The whole 2½ years from January 1948 to Korea were a period of substantial price stability. In this setting, high taxes are seen as a counterpart of a complex including high production, high consumption, and relative economic stability.

The evidence is perhaps no more conscisive than Colin Clark's on the 25% limit. But it sharply challenges the usual assumption that taxes are guilty until proved innocent and sets up the plausible alternative that taxes are innocent until proved guilty.

Tax Limits in a War Economy

Returning now to the example of the total war economy, we find that it presents an excellent model for the study of taxable capacity. First, by generating patriotism and perhaps fear and by throwing the economic problem into bold relief, war increases taxpayer acceptance and understanding of high taxes. It pushes out the political limits to taxation, with the result that economic, equity, and technical limits come more directly into play.

Second, a war economy permits us to define and quantify the excess or margin which constitutes the happy hunting ground for additional taxes and at the same time enables us to visualize clearly the things which limit the open season. In contrast with our examination of the taxation-expenditure relationship, which considered taxable capacity largely in terms of the process which determines national income and price levels, the examination of the wartime economic model which follows considers taxable capacity largely in terms of the fund or source available for taxation.

In 1943, the U. S. Treasury Department submitted a brief study to Congress estimating that of $135 billion of disposable income in 1944, some $88 billion could be absorbed by available consumer goods at then-prevailing prices and an additional $22 billion might be saved, leaving $25 billion as fair game for additional taxes.[10] The sudy quickly went on to point out that this excess spending power was unevenly distributed and could by no means be captured in its entirety by taxation. To cut all the fat from those more fortunately placed would involve cutting into the lean of those in more exposed situations. Our tax system has progressed beyond the meat-axe and cleaver stage, but it can hardly qualify as a surgeon's scalpel.

Even such highly developed taxes as the personal income taxes of the U. S. and Canada ignore many things which affect what the taxpayer has to spend and which, by the same token, affect what he has left to pay taxes. For example, the income tax does not take into account differences in the levels of rent and other living costs in different areas; nor differences in imputed income derived from gardens, farms, housing and other durable goods; nor the larger expenses borne by households with working wives; nor differences in costs of going to and from work. Even more important as a tax-limiting factor are fixed savings commitments for mortgages, life insurance, instalment purchases, and the like.

How do these differences operate to limit taxable capacity? Simply in that to avoid cutting into the lean, we have to leave much of the fat. For humanitarian reasons, we tend to limit the tax at each income level to the amount which is bearable by the least well situated taxpayers at that level. In this light, taxable capacity translated into individual terms falls considerably short of what may appear to be taxable capacity in the aggregate.

War brings not only equity limitations but also economic ones into sharp focus. Total wars are wars of production, and anything that interferes with the fullest and most efficient use of resources is of the gravest consequence. Taxes potentially interfere in several ways. First, they may reach levels where the taxpayer's economic reaction is either (a) to withdraw some of his resources—some of his labor, capital, and entrepreneurship — from production entirely or (b) devote his effort to inferior uses in doing non-taxed work for himself. A war economy gives wider play to this type of response to taxes by giving the individual worker more flexibility than a peacetime economy usually affords. Workers are not as closely bound to the usual work week of 40 hours when they have plenty of opportunities to work overtime and when absenteeism involves less risk of dismissal. As a result of the additional economic elbow room, opportunities to vary output in response to taxes are considerably increased.

Second, very high marginal rates of tax on business income are typical of a war economy, not to mention a defense economy. These rates are said to stimulate wasteful business spending and thus add to inflationary pressures on one hand and misdirect scarce rescources on the other. Colin Clark has relied increasingly on this argument in defending his 25-percent idea. But on close inspection, the argument becomes a good deal less persuasive.

The assertion runs that business purse strings will loosen when, out of each dollar spent, the government foots 52, 70, or 82 cents of the bill (to take the U. S. situation). This point is well taken when it is applied to outlays which have the effect of postponing income from the high-tax present to the lower-tax future. When a business man can make "nest-feathering" expenditures today on maintenance, improvements, and advertising which cost him only 30 or even 18 cents on the dollar but which promise to increase his profits in the future when taxes leave him, say, 50 or 60 cents on the dollar, he will of course be stimulated to spend now. But for the types of expenditure which promise no future income — the "loose-living" expenditures of high expense accounts and the like—the argument is more difficult to fathom. Such outlays promise little more than a bloated expenditure structure which will in due time weaken the competitive position of those who indulge in such loose business living. Moreover, it seems at least plausible that businessmen, rather than trying to find more ways to spend more dollars on the theory that government pays 70 or 82 percent of the cost, may instead focus their attention on the 30 or 18 cents that remain from each dollar. If they do, they may strive to cut costs and increase output in order to earn as many of these skrunken dollars as possible and thereby maintain profits after tax at more satisfactory levels.

A third aspect of the economic limits to taxation on which war turns the spotlight is the declining anti-inflationary force of taxes as taxpayers build up progressively fatter cushions of liquid assets. One might argue that the growing stock of assets is itself the result of not taxing enough. But once the taxpayer's bank balance or store of savings bonds becomes fat enough, taxes become less and less effective in repressing inflationary spending. Here is a case where taxes approach their economic limit not because their vices increase but because their virtues diminish.

A final point which the wartime model highlights is that the economic limit of a badly structured tax system will be reached at lower levels of taxation than in the case of one that is well structured. One aspect of this is that taxes differ in their effects on economic activity. Income taxes affect the reward for effort directly and obviously, sales taxes somewhat less so, death taxes only remotely so, and poll taxes not at all. On an incentive scale, the much maligned poll tax emerges as the best wartime tax—though the fact that it is totally unacceptable from an equity point of view may also be relevant here!

The other aspect of the structural consideration is the differential impact of particular taxes, notably income taxes, on the profitability of different types and forms of economic activity. All other things being equal, tax differentials can exert a strong pull on resources. Resources are withdrawn or routed away from nonfavored pursuits into types of production favored by such tax concessions as liberal percentage depletion, capital gains treatment, and the like. Since the resources are diverted from the channels they would normally have flowed into, the "natural" output pattern has been distorted, and total output may be impaired in the process. Only if the tax subsidies could be shown to improve on private allocation of resources and not reduce total production in the process could they be fully defended from an economic point of view. All of this, of course, is apart from equity objections, which might be controlling.

In short, war etches sharply the nature of the limits to taxable capacity. These limits differ only in

7 Thomas H. Sanders, *Effects of Taxation on Incentives of Executives*, Harvard University, 1951. In the course of his study, Sanders concludes that "for the most part, with considerable exceptions, businessmen are currently working as hard under high tax rates as they did under low tax rates. . . ."

8 Also, a policy of matching higher expenditures with higher taxes (in times of satisfactory levels of employment) is generally thought to have the further virtue of restraining government expenditures, largely through its sobering effect on the legislators who have to do the taxing.

9 Address by Alvin H. Hansen, University of Minnesota Conference on Savings, Inflation, and Economic Progress, May 15-17, 1952 (to be published in a symposium volume).

10 Hearings before the Committee on Ways and Means, House of Representatives, "Revenue Revision of 1943," p. 29.

degree, not in kind, in a defense or peacetime economy.

Conclusion

Let me close now with a few general observations and conclusions on the basis of the foregoing analysis. One personal observation is that the subject of this paper, quite apart from being one where angels fear to tread, is an awfully big one to wrestle with in 30 minutes. My feeling is apparently shared by the Tax Institute, which will come closer to spending 30 hours on it at a two-day meeting in Princeton in November.

Another observation on my treatment of the subject is this: it will not have escaped you that, while not eliminating the negative, I have been accentuating the positive. I have stressed the factors which push out the boundaries to tax capacity rather than those which restrict them. I did this partly because the more customary emphasis is on the latter to the neglect of the former, and partly because I wished to underscore the main practical conclusion of this paper, namely, that we are neither at, not perilously near, the economic limit to our taxable capacity — and I believe this is as true for Canada as it is for the United States. (This conclusion is offered as primarily an economic one, since the United States tax structure, at least, is badly in need of repair on the score of equity before pushing tax rates much higher.) By way of summary, let me translate this general conclusion into several specific propositions:

(1) That there is an economic limit to taxation, few would deny In this paper, I have tried to establish its general nature both hypothetically and by reference to wartime experience. In terms of a fully employed economy, it can be described as the limit beyond which the detrimental effects of taxation on resource use and production are so magnified and its beneficial effects so weakened that further tax increases become self-defeating.

(2) No one, not even Colin Clark, has established—nor is it inherently possible to establish—the absolute or relative quantity of taxation which represents the economic breaking point.

(3) Although one cannot respond to "How high can taxes go?" with a firm, single answer but only in terms of "it depends", certain limited judgments are possible in the light of the factors I have reviewed, and I hazard the following:

Given continuing full employment and further increases in public expenditures, we in the United States and you in Canada could increase Federal tax levels by as much as 10 or 15% and still remain within the bounds of taxable capacity. (Canada is included here largely for purposes of comparison rather than on the basis of a close study; taxes in both countries are nearing one-third of national income.) In other words, under the stated circumstances about $10 billion of skillfully structured increases in the United States—and about one-half billion dollars in Canada—might be added to Federal taxes without pushing us beyond the economic limits to taxation.

(4) Let me emphasize once more that the fundamental strains on a tightly-stretched economy result from the increase in public expenditures, not the increase in taxes to match it.

(5) Finally, though we do not appear to have reached the limits of our *capacity* to tax in either the United States or Canada, it seems clear that we have reached the limit of our *will* to tax in both countries. If the cold war gets hotter, if Communist aggression is intensified, it seems reasonable to expect that the will to tax will rise correspondingly. I refuse to believe that we would let the defense of our pocketbooks take precedence over the defense of our freedoms.

Continued from page 14

Roadblocks to Nation's Continued Prosperity

mainder of profit is put directly back into the business to provide new and better products and equipment.

A company forced by the government to operate on an inadequate profit is living on borrowed time.

The fourth road-block to continued prosperity is the instability of the dollar.

The government's money policies have encouraged inflation. Every time the government fails to balance the budget, it has to create new money through borrowing. The new dollars added to our money supply dilute the value of every dollar.

Inflation gnaws away at the value of people's savings. For example, suppose a man put $100 in the bank ten years ago. At 2% interest, compounded every six months, that $100 has now grown to $122. But, because of inflation, that $122 will now buy only as much as the man could have bought with $74 ten years ago.

Think what this means, Mr. President, to people who have been saving money to buy a home or to educate their children. Think what it means to people who must live off savings, or insurance, or savings bonds, or pensions.

Worst of all, inflation makes people lose faith in their business and government leaders. It encourages them to grasp greedily for government hand-outs, because they have been penalized for trying to be self-reliant.

The government can discourage inflation if it will spend no more than it takes in. The best way to do this is to eliminate non-essential spending.

Road-block number five is the fact that many people can't seem to accept the basic truth that full output from our production equipment would benefit all people.

Our great standard of living in the United States is based on our people's ingenuity in getting machines to do most of their work for them.

If today we had to do without the machines that have been invented in the last 100 years, it would take four times as many workers as we have to turn out the things Americans will buy this year.

The sad part of it is we could turn out much more with the machines we now have, without employees being overworked. Everyone would benefit. Everyone could buy more things, because everything would cost less to produce and prices wouldn't have to be so high.

But all too often people are persuaded they can have more by producing less. Some groups can—for a short while; but not for long. And the temporary gains of these wage earners are at the expense of their friends and neighbors who work elsewhere.

Road-block number six is monopolistic union practices, with the support of the government.

The labor policy of our country should preserve the right of all individuals to work as free men at jobs of their own choosing. It must be fair to everyone — the worker, the employer, and the public as a whole.

Just suppose, Mr. President, that all the companies in the rubber industry clubbed together and decided to close all their plants because their employees wouldn't agree to a 10% increase in production.

The government would crack down fast on the companies, wouldn't it? And rightly so. It would be a crime against rubber workers and a crime against the public for arbitrarily stopping the flow of essential products.

Yet, what happens when a labor union shuts down a whole industry over a disagreement about a pay increase? The government considers this within the union's rights. It will support the union. It will seize the industry, if necessary, to try to force management's hand.

Meanwhile everyone suffers, particularly the employees represented by the union.

Such irresponsible actions by unions, supported by government, cannot be tolerated by honest men who want to see their fellow men get ahead.

The seventh road-block is widespread misunderstanding of our business system.

Opinion surveys have repeatedly shown that large groups of the American people misunderstand the role of profits, competition, capital, incentive, stockholders, management and other vital parts of our opportunity system.

Most men believe in freedom and they believe in America as a land of opportunity. Yet they are easily misled into supporting government planning and policies that work against free enterprise and toward socialism.

And I don't see how we can expect people to understand if the government continues to give lip service to free enterprise, while its actions make business and the general public more and more the servants of the government.

Mr. President, you have said you believe in free enterprise.

Do you believe in it enough to guard it in every decision you make?

Let me repeat, briefly, these seven road-blocks in the path of continued prosperity of the United States:

(1) Unnecessary government intervention in business.

(2) Tax policies that destroy incentive.

(3) Government's failure to recognize the true role of profit.

(4) Instability of the dollar.

(5) Failure to accept the fact that full output benefits all people.

(6) Monopolistic union practices, with support of government.

(7) Widespread misunderstanding of the American business system.

I realize, Mr. President, that it will not be easy to remove these road-blocks to prosperity. The task will take patience and insight and courage.

Let me hasten to admit that we businessmen do not always have the courage to live up to the letter of all we preach. For example, although we believe in private ownership of industry, the temptation to accept government financing is sometimes too strong to resist.

Also, against our better judgment, some of us yield to unreasonable union demands. We sometimes yield even though we know that it will lead to more inflation.

We need your help, Mr. President. We need to have you set an example of forthrightness and moral courage—an example of complete fairness, untouched by favoritism. All Americans need your inspired leadership.

Mr. President, when you were a boy, didn't you look up to the President of the United States as the greatest living American? Didn't you believe him to be the most capable, the most esteemed leader? Didn't you trust him completely to see that rightness prevailed in our land?

You haven't forgotten . . . have you?

I haven't.

But do you think it is the same today with your boy—and mine?

It is up to you to make that boyhood faith burn again.

You can do it. Millions of your fellow men stand ready to help you. But you must take the lead.

Let us make the word "politics" once more a symbol of fine government.

Let us make the words "profit" and "incentive" and "free enterprise" mean opportunity for all—the only real security man shall ever find.

Let us give our sons a new faith in their leader and in their country and in their strength and courage to make a better world.

Mr. President, may your son—and my son—and all men, across the earth — catch their breath whenever you speak . . . and listen . . . and believe . . . and trust.

Kenneth C. Hardy Now With F. I. du Pont

(Special to The Financial Chronicle)

LOS ANGELES, Calif. — Kenneth C. Hardy has become associated with Francis I. duPont & Co., 722 So. Spring Street. Mr. Hardy was formerly Los Angeles manager for Shearson, Hammill & Co. and prior thereto was with Merrill Lynch, Pierce, Fenner & Beane and Schwabacher & Co.

Canadian Securities

By WILLIAM J. McKAY

It seems, for the time being at least, the heavy flow of foreign capital into Canada has been slowed down. One item of evidence of this is the recent reverse trend of securities purchasing by Canadians as compared with outsiders. The most recent statistics of the Canadian Bureau of Statistics, in fact, reveals that Canadians are purchasing more securities from other countries than they are selling in foreign markets, and this net outflow of capital has been going on for three successive months, up to August of this year.

According to the official figures the July purchase balance amounted to $16,300,000, compared with $9,300,000 in May and $7,400,000 in June.

The purchase balance resulted from transactions with the United States. Net repurchases from the United States in July amounted to $16,500,000 for Canadian Government Direct and Guaranteed Bonds and $6,100,000 for Provincials. Against this were net sales to the United States of only $2,900,000 in Canadian stocks and $2,200,000 in United States securities.

Transactions with the United Kingdom in July resulted in a sales balance for the first time in eight months. Net sales of Canadian bonds outweighed net purchases of Canadian stocks, producing a sales balance of $300,000. In trade with other countries there was a sales balance of $1,100,000 mainly due to transactions in Canadian stocks.

In the first seven months of this year, there were purchase balances of $26,800,000 with the United States and $4,200,000 with the United Kingdom, and a sale balance of $8,900,000 with other countries.

It must be borne in mind that the changes indicated in the foregoing data are exceedingly small when compared to the total foreign capital invested in Canada. According to the most recent estimate of the U. S. Department of Commerce private investment in Canada by U. S. interests between January 1950, and mid-1952 totalled about $1,400,000,000. The department's report, an analysis of U. S. investment abroad, said much of the new investment in Canada was in mining and forestry but there were increased investments in manufacturing and power.

The interest in Canadian securities, despite the recent slowing up of transactions on this side of the border, is apparently very little diminished. Only recently Clarence H. Adams, a member of the Securities and Exchange Commission, speaking before the National Association of Securities Administrators at Portsmouth, N. H., warned that bars set up to curb offerings of fraudulent Canadian securities in the United States should be careful not to hinder the flow of United States funds into legitimate Canadian enterprise.

Recognizing that Canada has vast areas of mineral resources, Commissioner Adams declared that much of the capital required for the exploration and development of these resources must come from United States investors and he warned administrators against the erection of any "economic blockades" which might retard such exploration and development.

The Securities and Exchange Commission, Mr. Adams revealed, has made a proposal to ease the raising of capital by small Canadian exploratory ventures by extending to Canadian securities the same exemption from registration now applicable to offerings of domestic securities in amounts not to exceed $300,000 per annum. All this indicates that Canadian economic expansion is still looked upon favorably as a proper field for venture of American capital.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Directors of **The National City Bank of New York** at their meeting on Sept. 30, amended the by-laws of the bank to change the

James S. Rockefeller

DeWitt A. Forward

Nathan C. Lenfestey

Leo N. Shaw

number of Senior Vice-Presidents from three to one, who will be DeWitt A. Forward, the senior credit officer of the bank. The Board also appointed three of the senior officers of the bank to the newly-created office of Executive Vice-President. James S. Rockefeller, formerly Senior Vice-President, becomes Executive Vice-President in charge of the domestic business of the bank. Leo N. Shaw, also a former Senior Vice-President, becomes Executive Vice-President and Manager Overseas Division. Nathan C. Lenfestey becomes Executive Vice-President and Cashier. Mr. Forward received his A.B. degree from Colgate University in 1916. His banking career started at National City in the Bank's College Training Class that year. He was appointed a Vice-President in 1927 and Senior Vice-President in 1945. Mr. Rockefeller, a graduate of Yale University, has been with the National City since 1930. In January, 1940, he was made a Vice-President. He entered Army service in 1942 and attained the rank of Lieutenant Colonel, returning to the Bank in December, 1945. He was appointed a Senior Vice-President in 1948. Mr. Shaw graduated from Amherst College in 1916. He joined National City as a member of the Foreign Service Training Class and was appointed a Vice-President in 1931. In 1945 he became Deputy Manager and in 1946 Manager of the Overseas Division, and was appointed a Senior Vice-President in 1848. Mr. Lenfestey joined National City in 1917, 3 years after graduating from Dartmouth College. He was appointed Cashier of the Bank in 1919 and Vice-President and Cashier in 1940 and has the longest tenure as Cashier in the Bank's history. The Board also appointed Arthur L. Worthington an Assistant Cashier.

* * *

Chemical Bank & Trust Company of New York has promoted three Assistant Vice-Presidents to Vice-Presidents, it is announced by N. Baxter Jackson, Chairman. They are: Francis P. Beattie and Walter M. Ross, both members of the bank's National Division, and Pierce Onthank who is in charge of the bank's office at 100 Park Avenue. Mr. Beattie joined the Chemical three years ago and has since been handling the bank's business in the northeastern states. Mr. Beattie, an alumnus of Massachusetts Institute of Technology, began his banking career with the Central Trust Company of Rochester in 1934, working up to Vice-President. Mr. Ross joined the Chemical in July 1950, coming to New York from Louisville where he had been Vice-President of the First National Bank with which he had been associated since 1945 upon his discharge from the Army as Lieutenant Colonel. He is an alumnus of Knox College. Mr. Onthank has been with Chemical Bank since 1945. A graduate of Williams College and the Harvard School of Business, he began his banking career in 1927 with the First National Bank of Boston. In June 1940, he was elected Vice-President of the New London City National Bank of New London, Conn., becoming President of that bank in 1941.

* * *

Raymond A. Lockwood, Vice-President of the **Manufacturers Trust Company, of New York,** was elected a director of E. W. Bliss Company, Canton, Ohio, Howard J. Herrick, President of the latter company has announced. Mr. Lockwood is in charge of the Mid-West business of the Trust Company. He is a graduate of the University of Minnesota, 1920 and the Harvard Graduate School of Business Administration, 1927. He has been associated with Manufacturers Trust Company for over twenty years.

Horace C. Flanigan, President of **Manufacturers Trust Comany,** announces that the Board of Directors of the trust company have authorized the transfer, as of Sept. 30, of \$30,556,000 from undivided profits to surplus, thereby making the surplus \$100,000,000.

* * *

The Board of Directors of **The Chase National Bank of New York** on Sept. 24, declared a quarterly dividend of 50 cents per share and an extra dividend of 30 cents per share, both payable Nov. 1, to stock of record Oct. 3. This action places the stock on a \$2 annual dividend basis, and payments for the year 1952 will aggregate \$2, including the extra dividend just declared. In 1951 an extra dividend of 20 cents per share was paid on Dec. 24, making \$1.80 per share for that year. It is added that in order to place future dividend declarations and payments within the same calendar quarter, the Chase Board also has decided that quarterly dividends will be declared early in January, April, July and October, with dividends payable on or about the middle of February, May, August and November. Accordingly, there will be no further dividend action taken this year.

* * *

The Bank of Osaka, Ltd., formerly The Sumitomo Bank Ltd., announces the opening of its agency at 149 Broadway, New York on Sept. 25. Tokuo Morita is the New York agent. The head office of the bank is in Osaka, Japan.

Frederick Gretsch, Chairman of the board of the **Lincoln Savings Bank** of **Brooklyn, N. Y.,** and former President of the Fred Gretsch Manufacturing Co., founded by his father, died at his home at Forest Hills, N. Y. on Sept. 27. He was 72 years of age. Mr. Gretsch became associated with the Lincoln Savings Bank, as trustee in 1918. In 1930 he was elected Vice-President and Chairman of Finance Committee. He succeeded Charles Froeb as President in 1940, serving in that capacity until 1950 when he became Board Chairman. Mr. Gretsch took an active part in the industrial development of the Williamsburg section of Brooklyn. He was a director of the Manufacturers Trust Company, a director of the Fred Gretsch Manufacturing Co., a leader and past President of the Brooklyn Chamber of Commerce, Chairman for a number of years of the Executive Committee of the Group V Savings Banks Association of the State of New York, having acted also as Chairman of the Group V Mortgage Information Bureau. A member of the Advisory Council of the New York Chapter, American Institute of Banking, Mr. Gretsch served as a trustee of the Savings Bank Life Insurance Council of the State of New York.

* * *

At the close of business Sept. 26, the **First National Bank of Floral Park** in **Nassau County, N. Y.,** was consolidated with the **Franklin National Bank of Franklin Square, N. Y.,** it was announced on Sept. 29 by Arthur T. Roth, President of the Franklin National. The Floral Park bank which had previously been known as the First National Bank & Trust Co. of Floral Park, henceforth will be known and operated as the Floral Park office of the Franklin National Bank. The latter will have capital funds, including reserves, of approximately \$10,000,000 and total resources of approximately \$140,000,000. Other branch offices of the Franklin National are located in Franklin Square, Elmont, Rockville Centre, Levittown and Farmingdale. Charles H. Wheelock, formerly President of the Bank of Floral Park is now a Director of the combined institutions and Vice-President in charge of the Floral Park office. The other directors have been invited to become members of the Advisory Committee for the Floral Park office. All other employees will remain in their present position.

The plans to consolidate the Floral Park bank with the Franklin National Bank were referred to in our issues of Aug. 14, page 572 and Sept. 18, page 1048.

* * *

The Directors of **West Side Trust Company, of Newark, N. J.** announces the following elections: Thomas Campbell Wallace as President and Chief Executive Officer of the bank; Morrison J. Feldman as Chairman of the Board. Mr. Wallace joined the bank in 1920; he served as Comptroller from 1929-34; Treasurer 1934-39; Executive Vice-President since 1939 and as Director since 1941. He is a graduate of the American Institue of Banking and the Graduate School of Banking, Rutgers University. For many years Mr. Wallace has been active in the Community Chest and Newark and New Jersey State Chambers of Commerce. He belongs to the Down Town Club, Kiwanis Club of Newark, of which club he is a former President; Treasurer of Essex County Bankers Association and Director of Broad Street Association, etc. He is Chairman of the Committee on Admissions of Newark Clearing House Association. Mr. Feldman became connected with the bank in 1920 as Manager of its Foreign Department. He served as Assistant Treasurer, 1928-1929, Assistant Treasurer and Assistant Secretary 1929-1934, Secretary, 1934-1939, was elected Vice-President and Secretary, 1939-1945, a Director in 1941, Vice-President, 1945-1951 and First Vice-President in 1951. Mr. Feldman is a graduate of the Graduate School of Banking, Rutgers University; Member of the Board of Governors and Regents, Essex County County Chapter, American Institute of Banking; Member of Newark and New Jersey State Chambers of Commerce, etc.

* * *

The **Metuchen National Bank of Metuchen, N. J.,** with common capital of \$100,000 was placed in voluntary liquidation on Sept. 3, having been absorbed by **The National Bank of New Jersey,** at **New Brunswick, N. J.**

* * *

On Sept. 24, the New Jersey State Banking Commission approved applications for two of Summit, N. J. institutions to establish branch banking offices in adjacent Berkeley Heights and New Providence Borough, both growing suburban communities. In furthernance of the plans **The Citizens Trust Co., Summit's** youngest bank, will open its new branch at 372 Springfield Avenue, Berkeley Heights, when alterations are completed, according to Harry W. Edgar of the Citizens Trust Co.

Remodeling of 1308 Springfield Avenue, site of the **Summit Trust Co.'s** New Providence branch, will begin at once it is indicated by Lawrence W. McGregor, President of Summit's oldest institution. The plans thus announced providing full banking facilities to New Providence and surrounding communities.

* * *

The **Fidelity Trust Co. of Pittsburgh** has acquired the assets and assumed the liabilities of the **Union Trust Co.** of Butler Pa., according to the Pittsburgh "Post Gazette" of Sept. 12, which quotes Alexander P. Reed Fidelity's President, as saying "it is our desire to offer to Butler the fully integrated facilities for banking and trust services that are in accordance with Fidelity's tradition. We propose to retain the present personnel."

Fidelity has a capital of \$15,000,000, assets in excess of \$70,000,000 and trust funds of more than \$297,000,000. The proposed purchase of the Butler institution by the Fidelity Trust was noted in our issue of Aug. 28, page 751.

* * *

Donald H. Burch, formerly manager of the **Durham Bank & Trust Company** branch at Mebane, N. C., has joined **The Bank of Virginia** as Assistant Vice-President at the bank's 21st and Granby Streets office in Norfolk, Va. His new duties became effective Oct. 1. Mr. Burch began his banking career in 1931 as a runner for the Fidelity Bank in Durham, serving with that bank until 1939, when he became asociated with the Citizens National Bank, where he also served as branch manager. From 1942 to 1946 he was on duty with the Navy, advancing to the rank of Lieutenant-Commander. After the war he returned to become manager of the Durham Bank & Trust Company in Mebane.

* * *

A capital expansion plan which would add \$5,000,000 in new capital, in addition to a \$1,000,000 stock dividend, has been announced for the **First National Bank in Dallas, Texas** and its shareholders by Ben H. Wooten, President. The capitalization changes would increase the bank's total working funds to more than \$37,000,000. Directors of the bank at a special meeting Sept. 22, issued a call for a special meeting of stockholders on Oct. 7 to vote on the proposal. The increase in capital structure, the second for the First National Bank within about two years, would be accomplished by the transfer of \$1,000,000 from undivided profits to issue the stock dividends, a reduction in par value of outstanding common stock from \$16 to \$10 a share by the issuance of additional shares, and the sale of 200,000 new \$10-par common shares at \$25 each. Upon becoming effective, the changes in capitalization would give the First National Bank capital stock of \$15,000,000 as compared with \$12,000,000 at present, and a surplus fund of \$15,000,000 as compared with \$12,000,000 currently, which together with undivided profits of approximately \$4,000,000 and a reserve of over \$3,000,000 for contingencies under a tax formula would bring the bank's total working capital to more than \$37,000,000. The new stock issue will be underwritten by a syndicate of 23 securities firms. The group of underwriters, principally Dallas concerns, is headed by Merrill Lynch, Pierce, Fenner & Beane and the First Southwest Company of Dallas. They will serve as joint managers of the offering.

* * *

Following a special meeting of the directors of the **American Trust Company of San Francisco** on Sept. 23, James K. Lochead, President, announced plans to increase the bank's capital structure. As the first step, all the 4% convertible preferred stock remaining outstanding has been called for retirement on Oct. 27, at \$55 per share plus accrued dividends. The preferred stock is presently convertible into common stock share for share. An agreement has been made with an underwriting group headed by Blyth & Co., Inc., under which it will purchase sufficient unissued common stock to provide the funds required for the retirement of any preferred stock remaining unconverted on the retirement date. It is contemplated that the next step will be an offering to be made to holders of common stock about Nov. 12, and continuing for 30 days whereby each stockholder will have the right to subscribe pro-rata for additional shares of common stock. The subscription terms will be announced at the time the warrants are mailed to stockholders. Before this offering is made, an underwriting agreement will be entered into so as to assure the sale of any stock not subscribed for by stockholders. The Board of Directors has stated its intention to increase the annual dividend rate on the common stock from \$2.40 a share to \$2.80 a share commencing with the quarterly dividend to be paid Dec. 10, to stockholders of record Nov. 28. The board has determined to recommend that, subject to the approval of the stockholders at the January, 1953, annual meeting, the stock be split two for one.

Robert H. White

Robert H. White, a limited partner in Asiel & Co., New York City, passed away Sept. 22 after a long illness. Mr. White had been with Asiel & Co. since 1901.

Edward Rotan Director

Edward Rotan, Rotan, Mosle & Moreland, Houston, Tex., has been elected to the board of directors of the River Brand Rice Mills, Inc.

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

HIGHLAND PARK, Mich. — Harry W. Van Horn has joined the staff of Waddell & Reed, Inc.

Public Utility Securities

By OWEN ELY

Western Union Telegraph Company

(Correction on Northern Indiana Public Service Co.)

The recent sale of 100,000 shares of Western Union (out of about 180,000 shares held) by John Fox of Boston has drawn headline attention to this company. According to "Time" magazine, Mr. Fox made an estimated profit of $1 million on the stock sold, and his meteoric career was recently written up in "Fortune." Announcement of the sale resulted in a decline of several points, and the stock recently has been around 38½ compared with this year's range of about 45½-37½.

Since Postal Telegraph was acquired in 1943, Western Union has been dominant in the telegraph field although it competes to some extent with American Telephone & Telegraph, its counterpart in the telephone field. It also has extensive cable and radio systems, financial quotation and news reporting services, etc.

Like the Bell System, Western Union is active in a research program designed to mechanize operations. This program includes the completion of a series of high-speed message centers, the expansion of "carrier" circuits and radio beams, and the extension of the use of the "Desk-Fax" and other facsimile transmission devices. A new subsidiary, Western Union Services, was formed in 1951 to install and service television receivers.

In recent years the company has been beset with labor troubles, since wages constitute a large proportion of expenses and taxes (about 65% in 1951). When the mechanization program is further along, the job of keeping the operating personnel satisfied may be less difficult. However, in the past two years the labor problem has been serious. In 1951 wage increases raised expenses by $15.4 million (a little over a third of the huge original demands). Part of the 1951 increase was offset by rate readjustments which were facilitated by a 40% reduction in the excise tax on telegrams, which saved the public more than $14 million in taxes annually.

Early this year the unions were back again, and as the company demurred at granting further increases, a lengthy strike occurred. Finally the company agreed to grant increases to the extent that higher rates might be obtainable from the Federal Communications Commission in Washington. The FPC later approved a rate increase of $13.2 million as an offset to the 1952 wage increases and the $3.4 million increase granted in the fall of 1951. However, since part of the rate increases were intrastate and required approval by local commissions, the full increase was not immediately effective.

Western Union's common stock record in the past decade has been as follows (the class A stock corresponds to common stock):

Year Ended Dec. 31	Revenue (Millions)	Share Earnings	Dividends Paid	Approximate Price Range
1952	---	---	$3.00	46 - 38
1951	$202	$4.85	2.00	47 - 33
1950	187	7.26	2.00	44 - 20
1949	180	*2.73	Nil	24 - 13
1948	192	*0.14	1.00	23 - 15
1947	207	7.43	Nil	27 - 17
1946	183	*9.01	Nil	53 - 18
1945	193	3.64	2.00	56 - 43
1944	186	*0.29	2.00	53 - 41
1943	161	6.92	2.00	50 - 37
1942	132	8.95	2.00	30 - 23

*Deficit.

In the first half of 1952 Western Union reported a deficit of $3.17 a share, reflecting the long strike. July also showed a small loss. However, the rate increases now becoming effective will probably put the company in the black for the balance of the year and earnings for the calendar year may perhaps equal $1-$2 per share (considering a special tax credit of $2.5 million), it is estimated. The company is reported to be confident that it can maintain the $3 dividend, but obviously so long as it remains at the mercy of the labor unions earnings will be difficult to forecast.

The company's capitalization is not highly leveraged; at the end of last year mortgage debt was only 16% and miscellaneous obligations 9% of total capitalization. Plant is carried at original cost and the depreciation reserve is 45% of gross plant. Funded debt has been cut in half during the past decade, through use of cash accumulated from depreciation and retained earnings in prosperous years. Moreover, the company had a wonderful dividend record prior to 1932, having made payments in every year but three since 1857. (After 1932, however, payments became irregular.)

Nevertheless, Western Union remains a "cyclical" stock because of the very high operating ratio (96% in 1951 compared with about 90% in 1942). The balance of revenues left for fixed charges and dividends is so small that it is sharply affected by changes in wages and rates, the impact of the business cycle, government use of wire facilities during wartime periods, changes in taxation, etc. Until such time as this expense leverage can be reduced the issue obviously must remain in the semi-speculative class, despite its sound set-up from a balance sheet angle. Whether the mechanization program can eventually stabilize earnings is, of course, the $64 question.

Other questions, discussed in the 1951 report to stockholders, include the clarification of Federal policy with respect to communications, acquisition by Western Union of the Teletypewriter Exchange Service and other telegraph services of the Bell System, substitution of Western Union service for the message network operated by the General Service Administration (which competes with Western Union for government business), readjustment of the international cable business through action by Congress, etc.

* * * *

CORRECTION

In the article on Northern Indiana Public Service Company in the previous issue of this column, the table showing the capital structure for 1946 and 1952 should have been stated to be in percentages, rather than in millions of dollars as might have been inferred. The table should have appeared as follows:

	Dec. 31, '46	July 31, '52
Mortgage Debt	49.2%	47.8%
Other Debt	6.6	5.3
Preferred Stock	23.1	13.1
Preference Stock	---	5.2
Common Stock Equity	21.1	28.6
Total	100.0%	100.0%

Continued from first page

Pension Funds and Their Impact on the Capital Market

insured plans of various types. Group annuities account for about two-thirds of the total, with deposit administration plans and individual policies contributing the balance. Reserves under these various kinds of insured pension plans now aggregate about $7 billion. Pension contributions, however, simply add to the growth of life insurance assets from other sources; they are pooled with other policy reserves, and have no separate identity. The volume of new life insurance company investments each year, therefore, is simply being increased by about 30% over what it would otherwise be.

During the past 12 months, life insurance companies have continued to sell public securities in order to make real estate mortgage loans and to acquire corporate bonds. Net purchases of common and preferred stocks amounted to less than 3% of the additions to assets. Thus, insured pension plan contributions have been invested principally in the obligations of industrial corporations and in real estate mortgages.

The lack of specific data on the trusteed pension plans of corporations makes it impossible to appraise recent trends precisely. Our best estimates, which we have checked as carefully as possible, indicate that annual additions are running close to $1.2 billion. We have a fairly good basis for this estimate but very meagre evidence on the question of how large these funds have grown. No actual data are available, but our best guess is that corporate pension funds now amount to at least $8 billion and might amount to as much as $10 billion.

It is difficult to generalize on how these funds are being invested because each individual pension trust is different and there is not necessarily any uniformity in the investment policies followed. However, it is safe to say that currently trusteed pension funds are being invested almost entirely in corporate bonds and stocks. Mortgage and real estate investments are relatively unimportant and net purchases of U. S. Government securities are probably not substantial. The proportion of annual additions going into common stocks is also very difficult to determine, but it seems doubtful that it amounts to more than 20%.

In general terms, these are the facts about the rate of growth and investment outlets of the three principal components of the flow of savings through pension funds. To summarize, we can identify a $3 billion rate of growth in pension funds other than those operated by the Federal Government. Of this amount, about $800 million is accounted for by State and local funds, $1 billion by insured plans, and $1.2 billion by the trusteed plans of corporations. By type of investment, the distribution of the $3 billion total may be very roughly as follows:

Public securities	25%
Corporate bonds	45
Mortgages and real estate	20
Preferred and com. stocks	10
	100

Three aspects of the influence of these funds on the capital market of 1952 are worthy of special consideration. In the first place, has the flow of savings been enlarged and stabilized by the operation of pension funds? Secondly, how have these pension plans affected the availability of risk as contrasted with debt capital? Thirdly, what are some of the implications for the kinds of securities to be offered by those seeking long-term funds?

Effects on the Flow of Savings

There is a sound basis for questioning whether the operations of pension funds add to net personal savings in the aggregate. There is little doubt, on the other hand, that the process of regularizing savings through such channels tends to have a stabilizing effect upon the volume of funds available to investing institutions. The growth of pension plans has also contributed to the long observed trend for a higher proportion of investments to be made through intermediary institutions rather than directly by the individual saver.

Thus, it can be concluded that the institutional character of the capital markets is continuing to be increased by the availability of a high and relatively steady flow of savings. There is reason to believe that institutional investors will be less volatile in their policies and that the greater importance of professionally managed savings will contribute to the stability and continuity of the capital markets. At the same time, keen competition between institutions should insure a highly desirable degree of flexibility and fluidity in these markets.

Influence on the Availability of Equity Money

Notably in the case of trusteed pension funds, there has been a strong tendency in recent years to rely more heavily upon equity securities. Because these trusts are growing rapidly and have no need for liquidity, equity securities have been attractive as a means of improving the rate of earnings on invested assets. As long as a substantial differential exists between the rate of return on common stocks and bond yields, pension trusts may be expected to continue their buying of good quality common stocks. It would probably take a change in the business climate so drastic as to cause a real loss of confidence in the continuity of dividends to interrupt this flow. Minor fluctuations in earnings and stock prices can be taken in stride.

Trusteed plans are not, of course, the only new common stock buyers of importance. Changes in the laws of New York State during the past two years, for example, have authorized life insurance companies and mutual savings banks to invest in equities. Although these institutions have not been active buyers to date, their contribution to the supply of risk capital is likely to be appreciable over the years. It appears that at long last the sources of equity capital are being enlarged to replace the individual investors in the upper income brackets whose buying power has been so drastically reduced by our highly progressive income and estate tax structure.

The point is sometimes made that the equity money from savings institutions is usually directed to the securities of well-established companies which qualify as "prudent man" stocks.

However, it should be recognized that purchases of stocks with retirement and pension fund assets place those who sell in a position to make more speculative investments if they are so minded. Thus, greater fluidity and flexibility are being provided to the capital markets. If the flow of funds does not reach and keep afloat new enterprises, which is the common complaint, we should recognize the real source of the difficulty. The essential problem is not impediments in the flow of capital, but rather the poorly conceived tax structure which is so burdensome on the individual and the new, growing corporation.

Securities for the Institutional Market

We are all familiar with the growth of direct placements as a means of facilitating long-term borrowing from life insurance companies and pension trusts. During 1951, it is estimated that about two-thirds of the volume of new industrial obligations were placed directly with institutional investors. This is not, of course, the only evidence of tailoring securities to this market. Other examples are turnpike revenue bonds, natural gas pipeline issues, the subordinated debentures of finance companies, the sale and leaseback of business properties, convertible debentures, and sinking fund preferred stocks. In these ways, the capital market has been adjusted to the changing preferences of the institutional investor.

If experience and the record of the recent past mean anything, they suggest that more such developments will occur in the future. Thus, as we look at the 1952 model of the capital market, we can be sure that it will change its characteristics in the years ahead. We can be confident that the flow of funds generated by the three major types of pension plans will substantially exceed the current volume of $3 billion. We can assume that the management of these funds will continue to be alert to new fields of investment and that they will be willing to provide equity as well as debt capital where long-term investment characteristics are present. The primary motive is, of course, the search for sound long-term yields. An increase of ¼ of 1% in the earnings rate reduces the cost of a pension plan by about 6%. Thus, we have strong incentives operating to keep pension fund managers receptive to new investment opportunities. It is reassuring to survey these prospects for greater fluidity in the capital markets.

Continued from first page

As We See It

Their conclusions were of necessity based on *a priori* reasoning. They merely concluded from the record of the spenders in Washington in many other connections, and their observations of the waste and apparent lack of interest in economical operation in the armed services, that too much was being spent for too little. It is for this reason that the analysis of this situation last week by Mr. Eisenhower assumes such primary importance. Here are carefully reached conclusions of an obviously qualified individual.

Real Saving

His emphatically spoken assertion not only that really important savings can be effected in defense outlays, but that the major economies which must come can and must be made in the defense program—and be made without impairment of the effectiveness of that program—is not only heartening, it is confidence-inspiring as well. Lest some of the significance and the force of some of these statements be lost in the scuffle about other and far less important matters, we venture to set forth certain passages of the Republican Presidential candidate. First, the vital general aspects of the current situation as seen through this ex-soldier's eyes:

"The critical fact we must face is this: The cost of security today amounts to 75% of our enormous national budget. This means high taxes. Beyond this, the Administration finds in this fact its alibi for inflation and deficits and for the strain put upon our whole economy.

"Can this burden be lightened without endangering national security?

* * *

"Our answer is: Yes, much can be done.

"Let us begin with the fundamentals of the budget. Out of the $80 billion our Government is spending this year a few items like the $6 billion for interest on the national debt can't be reduced. From the other $14 billion for nondefense purposes, real savings can be made by the use of business-like practices under a clean administration.

"But the big spending is, of course, the $60 billion we pay for national security. Here is where the largest savings can be made. And these savings must be made without reduction of defensive power. That is exactly what I am now proposing."

Then a few graphic examples of how things work out in practice:

"We have never been a military-minded people. In time of peace, we have always cut the military establishment to the bone, then to the marrow. In time of war, we have said, 'let the professional soldier take care of it.' This attitude has encouraged the military, accustomed to famine or feast, to try to take advantage of crisis.

"Resulting frenzied expansion has meant disorder, duplication and waste. It has meant an attempt, for example, by our Air Force to buy 20,000 super-deluxe desk chairs at $10 above the standard model price. It has meant our Navy laying in a fifty-year supply of anchors all at once. It has meant our Army buying enough front-axle gaskets for jeeps to last one full century.

* * *

"We need bases in Morocco. We have needed them ever since the Soviet Union made clear that it had no intention of letting the world return to real peace. To build bases of this type, economically, takes two to three years.

"What did we do? We did not start on these bases at the time Soviet intentions became clear. We waited until 1951, six months after the war in Korea broke out. After all this foot dragging, the Administration then insisted on a 'crash program'—get it done fast whatever the cost. The result: we got two bases for the price of five."

Now what are the remedies? Here is what a professional soldier of demonstrated ability, now turned civilian, thinks:

"*First:* We must press for a weapons program that is realistic. We cannot pretend to do everything in every field all the time. Our judgment in weapon development must be sure and sound and related to tactical needs. To do this the professional fighting man requires the advice and knowledge of both industry and labor.

"Whenever a new weapon comes from the laboratories, all services—sometimes understandably—demand the right to use it. Stranger than this is the almost inevitable demand of each service to do the research, development and production work on new weapons. Each believes that it can do the work best. In this matter prompt adjudication among the services is mandatory—otherwise you will find all three engaged in spending your money for a single need.

"*Second:* To save money and increase efficiency we must emphasize simplicity in design. Back in February, 1948, when I left the office of Chief of Staff, I wrote as follows: 'A program for research and design of new equipment is an obvious necessity, but simplicity should be stressed more than has been our practice. We Americans are inclined to confuse the biggest, most complicated and most durable with the best. Whereas in war, the simple and expendable weapon, may, in the light of time and production facilities, be the most satisfactory.' Unfortunately, ladies and gentlemen, I could write the same today, with perfect truth.

"Modern war teaches one sure lesson: that today's best weapon is out of date tomorrow. The progress of science warns against putting too much confidence into today's best weapon, for soon it may be obsolete.

* * *

"Such unity as we have achieved is too much form and too little substance. With three services, in place of the former two, still going their separate ways, and with an over-all civilian staff frequently unable to enforce corrective action, the end result has been not to remove duplication, but to produce triplication.

"All this must be brought to an end.

"Our task, however, goes still further. We must critically review the political policies governing our military program; and we must review that military program itself in all its significant details.

* * *

"My sober conviction is that action along the lines I have indicated, in the absence of radical change in world conditions, will soon begin to reduce expenditures and eliminate the Federal deficit. This is a first step toward tax reduction."

Now let him who dares, say we must not even try to reduce defense outlays!

Continued from first page

Americans May Hoard Gold Coins

possessing "special value to collectors of rare and unusual coin." Note from this language that it is not necessary, in order to acquire, transport, import or hold such gold coin, that one be himself a coin collector in the numismatic meaning of the term. If the coin passes muster, you may hold it. Nor is there any maximum amount you may legally hold.

As the government has been interpreting its own regulations in recent years, an American is perfectly free to import a trunkful of pre-1933 American or foreign gold coins—provided he is willing to pay the premium price which such coins bring on the world's free gold markets—without paying any duty or running afoul of the law. Likewise, one may buy gold coins from coin dealers or numismatists without limit. Imported gold coins, of course, have to be examined by the Customs, so that the government may make sure that they are of numismatic quality and are not on the prohibited list.

Gold Coins You May Not Import

Prohibition of the importation of certain gold coins into the United States is covered by the Bureau of Customs Circular Letter No. 2798 of June 25, 1952, addressed to Collectors of Cutoms and others concerned under the heading, Importation of Foreign Gold Coins. The text reads:

"The Director of the Mint advises that old foreign gold coins are being reproduced and that new gold coins are being issued abroad in substantial quantities.

"Accordingly, it has been determined that the following gold coins do not qualify for importation into the United States as rare coins under the provisions of section 54.20 of the Gold Regulations (31 CFR 54.20):

Country	Denomination	Mintmarks
Albania	100 Franka	1926-27
Austria	1 Ducat	1915
	4 Ducat	1915
	20 Corona	1915
	100 Corona	1908-14-15
	100 Kronen	1923-24
	20 Franc (8 Florin)	1892
France	20 Franc	1901 through 1921
Hungary	100 Korona	1907-08
Peru	20 Sol	1950 and subsequent years
	50 Sol	1950 and subsequent years
	100 Sol	1950 and subsequent years

"In view of the foregoing, you are hereby instructed to deny entry into the United States of any of the above-described coins, unless the importer desires to offer them for sale, pursuant to section 54.40 of the Gold Regulations (31 CFR 54.40), to a United States Mint or Assay Office."

Obviously, a present-day reproduction of an old coin can hardly qualify as numismatically rare; nor presumably can coins of recent mint mark, such as the Peruvian pieces in the foregoing Customs list if minted in quantity.

Gold Hoarding Since 1933

The citizen's above-described privilege of holding gold coins of numismatic value is an exception to the provision of the Gold Reserve Act of 1934, which vests in the Government of the United States title to all monetary gold in the country. It will be recalled that, by Executive Order No. 6102 of April 5, 1933, the hoarding of gold coin, gold bullion and gold certificates was made illegal, with certain exceptions, and holders of gold were called upon to deliver it to the government through the banks. The exceptions referred to were four, of which three (gold used in industry, etc.; gold earmarked for foreign official account; and gold licensed for other proper transactions) need not here concern us. The remaining category was defined in the Executive Order as:

"Gold coin and certificates in an amount not exceeding in the aggregate $100 belonging to any one person; and gold coins having a recognized special value to collectors of rare and unusual coins."

In the course of time the regulations were tightened. The Executive Order No. 6260 of Aug. 28, 1933, did not change the above provisions. But an order of the Secretary of Treasury of Dec. 28, 1933, "requiring the delivery of gold coin, gold bullion and gold certificates to the Treasurer of the United States" eliminated the $100 exemption and excluded quarter-eagles. Thus, the exception to the surrender-of-gold provisions was made to read:

"Gold coin having a recognized special value to collectors of rare and unsual coin (but not including quarter eagles, otherwise known as $2.50 pieces)."

A supplement to the foregoing order of Dec. 28, 1933, was promulgated Jan. 15, 1934. Therein the language as to coin holding was changed to read:

"Gold coin having a recognized special value to collectors of rare and unusual coin (but not including quarter eagles, otherwise known as $2.50 pieces, unless held, together with rare and unusual coin, as part of a collection for historical, scientific or numismatic purposes, containing not more than four quarter eagles of the same date and design, and struck by the same mint);"

This constituted a liberalization of the previous order with respect to quarter eagles.

Finally, there were the regulations of the Secretary of the Treasury, Provisional Regulations Issued under the Gold Reserve Act of 1934. These regulations, approved by the President on Jan. 30 and 31, 1934, contained language which was to be carried forward unchanged in all subsequent revisions of the gold regulations until that of August 1952. Its language pertinent to the holding of gold coin read:

"Sec. 20. *Rare coin.*—Gold coin of recognized special value to collectors of rare and unusual coin (but not including quarter eagles, otherwise known as $2.50 pieces, unless held, together with rare and uunsual coin and as part of a collection for historical, scientific, or numismatic purposes, containing not more than four quarter eagles of the same date and design, and struck by the same mint) may be acquired and held, transported within the United States, imported, or held in custody for domestic account

without the necessity of holding a license therefor. . . ."

Administration of the Regulation

The above regulation obviously was intended to protect the interests of legitimate numismatists. But it does not say that only *bona fide* numismatists may hold gold coins, although a quick reading may give that impression. Indeed many persons have held on to one or more gold coins since 1933 without feeling themselves to be criminals. Some, in fact, have done so with the government's knowledge. Actually there is no way to determine who is a *bona fide* coin collector and who is not. You may have no more than a few foreign coins left over from your European trip and claim to be a coin collector. The government would have a hard time proving that you are not. Moreover, the language of the regulation does not limit itself to collectors of only gold coins.

With the passage of the years the bulk of the gold coins held by the American public in 1933 is believed to have been acquired by the government, gone into coin collections or otherwise disappeared. Also, with the passage of time gold coins which were not at all rare in 1933, have come to be considered so. Thus it happens that the government has become more lenient in acknowledging the "rarity" of gold coins.

In the early years of the gold regulations, citizens holding gold coins and seeking permission to keep them as "rare coins" were required to send the pieces to Washington for inspection. Subsequently Washington contented itself with receiving a description of the coins concerned: their denominations, dates and condition from a numismatic standpoint. The ultimate arbiter whose word is accepted by the Treasury Department is the numismatic division of the Smithsonian Institution. Today any United States gold coin that is not worn completely smooth is considered "rare," within the meaning of the gold regulations. So, too, are foreign coins of pre-1933 mintage.

The practice of foreign mints during recent years of minting full-content gold coins bearing old dates has caused some complications in the administration of the gold regulations. Where the Treasury has knowledge that an importer is bringing in numismatic gold coins actually manufactured recently, it denies such coins entry into the United States. For instance, this has happened in the case of recently-minted "pre-World-War-I" gold coins of French origin. From advertisements in Swiss newspapers it is known that various "rare" gold coins have been lately struck in Austria. The exclusion of such coins from the United States evoked criticism of the Treasury in a recent meeting of the American Numismatic Society.

Not all international coin movements through our ports, of course, are inward. Some think that more gold coins have left the United States than have entered, since the nationalization of 1933. It is only natural to suppose that gold coins which were deliberately retained by non-numismatists and not turned in to the government at $20.67 an ounce would sooner or later find their way into the unscrupulous jeweler's melting pot or abroad, where a minimum of $35 per ounce is legally obtainable and usually much more in black or free markets. Mention may be made, also, of foreign coin collectors, an outstanding example of which was Farouk, when King of Egypt. Farouk, whom newspaper stories have described as an international gold smuggler as well, was an avid buyer of the wares of American dealers in gold coins.

Conclusion

If the words mean what the dictionary says they mean and if the numismatic experts of the Smithsonian Institution do not depart from their standards of recent years, anyone in the United States may hold gold coins of any denomination or mint in any quantity, with the exceptions of foreign coins minted after April 5, 1933 and of worn coins. Anyone may transport them within the United States; sell them; or import them freely without running afoul of the law.

The Treasury can of course amend its gold regulations without notice. But, as matters stand, an American willing to pay the high premium which gold coins command abroad need not bother to hold them in Tangier or Montevideo, if he prefers to have them at home where he can count them on rainy evenings.

Continued from page 8

NSTA Notes

New York-Florida trains on the Seaboard and members from the Middle West coming by train can make connections with the Seaboard at Washington, Richmond or Petersburg, Va. Regular air line service is available from Cincinnati direct to Southern Pines by Piedmont Air Lines. On request, arrangements will be made for cars to meet trains and planes for all members who notify the group of the time and place of their arrival at Southern Pines.

Present plans are to convene the meeting at 10:30 a.m., on Thursday, Oct. 23, at which time reports of the North Carolina Municipal Council and discussion of North Carolina activities will be considered. After a brief recess, the Securities Dealers of the Carolinas will hold a business session.

A Social Hour will be held in the Lounge on Thursday afternoon at 5:30 o'clock and this informal gathering will be open to all members, their wives and their registered guests. Due to inadequate facilities for private dinners, no banquet will be held and the evening will be open to informal activities.

The Friday session (Oct. 24) will convene at 10:30 a.m., for a meeting of the South Carolina Municipal Committee and for reports on its work. Immediately thereafter Dr. Jos. A. McClain, Jr., Dean of the Law School of Duke University, will address the joint groups. All sessions will be open to all members of the three groups and full attendance at all meetings is urged.

Members are encouraged to bring their wives to the meeting and special entertainment is being planned for them.

All accommodations at Mid-Pines Club have been reserved but it is desirable that members make reservations in advance so that the accommodations desired and the probable time of arrival may be known. All reservations can best be made through W. Kelvin Gray, P. O. Box 1029, Raleigh, N. C., and should be made as early possible. Members may send as many representatives as they desire.

SECURITIES TRADERS ASSOCIATION OF DETROIT AND MICHIGAN

At a meeting of the Securities Traders Association of Detroit and Michigan, Inc., held on Thursday, Sept. 25, 1952, the following officers were elected for the fiscal year beginning Oct. 1, 1952:


H. Schollenberger


H. A. McDonald, Jr.


Bertrand Leppel

Herbert Schollenberger, Campbell, McCarty & Co., President.

Harry A. McDonald, Jr., McDonald-Moore & Co., Vice-President.

William P. Brown, Baker, Simonds & Co., Secretary.

Bertrand Leppel, C. A. Parcells & Co., Treasurer.

The following individuals will serve on the Board of Directors, along with the above officers: Edward J. Miller, Smith, Hague & Co.; Leslie C. Muschette, First of Michigan Corp.; Harry B. Buckel, Manley, Bennett & Co. (Immediate past President.)

SECURITY TRADERS ASSOCIATION OF NEW YORK

Security Traders Association of New York (STANY) Bowling League standing as of Sept. 25, 1952 are as follows:

Team—	Points
Donadio (Capt.), Demaye, Whiting, O'Connor, Rappa, Seijas	14
Murphy (Capt.), Manson, D. Montanye, O'Mara, Pollack, Gavin	13
Serlen Capt.), Gersten, Krumholz, Rogers, Gold, Young	11
Krisam (Capt.), Ghegan, Jacobs, Gannon, Cohen, Strauss	11
Goodman (Capt.), Smith, Valentine, Meyer, Farrell, Brown	11
Leone (Capt.), Greenberg, Tisch, Werkmeister, Leinhard, Lopato	10
Burian (Capt.), G. Montanye, Voccoli, Siegel, Reid, McGovern	10
Lytle (Capt.), Growney, Craig, Fredericks, Bies, Lyons	10
Hunter (Capt.), Klein, Weissman, Sullivan, Murphy, Searight	9
Mewing (Capt.), Bradley, Weseman, Hunt, Gronick, Huff	9
Meyer (Capt.), Kaiser, Swenson, Frankel, Wechsler, Barker	7
Bean (Capt.), Frankel, Casper, Nieman, Bass, Krassowich	5

200 Club

Ernie Leinhard	213
Jack Sullivan	201

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

It looks like the big thing this week is the longer trading day that the Stock Exchange has begun. Outside of that the market is slumbering, doing little but occasionally stirring in its sleep. In the meantime, scores of traders are standing by its bed, betting on which way it will move when it does awake.

* * *

The major news these days, and for that matter, probably for the coming weeks, will be the election campaigns and their attendant hoopla. If you're a Democrat then everything the Republicans say is distorted. If you're a Republican then the Democratic speeches are all so much wind.

* * *

You're probably thinking what all this has to do with the stock market. The answer is that whatever policies the Federal Government will follow in the next few years will have a tremendous influence on price trends.

* * *

All this, however, is premature. At least the market is in one of those periods where it is saying little. The obvious procedure in such circumstances is to do nothing. Actually this shouldn't be too hard to do, because two weeks ago when the market seemed well on its way to perdition, the advice here was to reenter on the long side. If you've done so, then sitting back and awaiting developments shouldn't be too hard.

* * *

For the next few days it is not going to make much difference what you do. I think prices will go up a bit, but the basic action will be one of dullness and possibly even indifference. A spark of some kind is now necessary to set prices in an upward groove. Where such a spark will come from is anybody's guess.

* * *

Failing to get such outside stimulus the immediate trend will be sidewise, followed by a little advance, then down again. As a matter of strict trading technique, and assuming that commissions, taxes and other extras don't take too big a chunk, any further rally might be a good place to get out of long stocks; then use the subsequent reaction to get back again.

* * *

The above would be the ideal. Unfortunately the ideal has to take into account many factors that seriously affect such an ideal. What these are you can easily tell when you get your monthly brokerage statement, and when it comes time to make out your income tax statement.

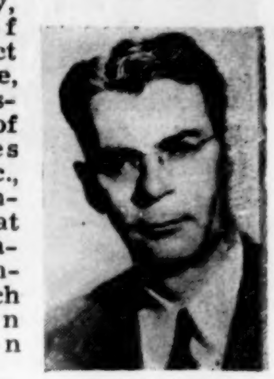
* * *

Actually I don't believe a new reaction will carry any lower than the previous lows made two weeks ago. So instead of trying to trade in and out it would be more practical to sit tight with long positions.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

NASD Announces New Office in Dallas

HOUSTON, Tex. — The securities business in Texas has been growing faster than in any other section of the country, Earl G. Fridley, Chairman of Texas District Committee, National Association of Securities Dealers, Inc., said in announcing that the Association is opening a branch office in Dallas on Oct. 1.


Paul J. Fagan

Mr. Fridley, senior partner of the Houston investment firm of Fridley & Hess, is Chairman of the NASD District Committee No. 6. The Association enforces for the securities business a code of ethics designed to insure the sale of investment securities on a high plane of commercial honor.

The new Dallas office will be in the charge of Paul J. Fagan, who has been employed in the New York and Washington offices of the Association. Mr. Fagan will be the Secretary of District No. 6. This will be the first time that a NASD Secretary has operated in the Southwest.

In disclosing the rapid growth of the securities business in Texas since the war, Mr. Fridley quoted from figures supplied by Wallace H. Fulton, Executive Director of the Association, who has just completed a series of meetings with Texas securities dealers. Mr. Fridley said that since 1946 the volume of new corporate securities underwritten by dealers in the State has nearly quadrupled. It went from $12,145,700 to $45,505,157 in the six years. At the same time, the number of NASD member-firms has increased 25% to nearly 100, while employment has more than doubled, with 720 employees registered last year against the 324 on the rolls in 1946.

"This unusual growth," Mr. Fridley went on, "is one of the compelling reasons for establishing a full-time Association office in Texas."

Mr. Fagan will have his office in the Reserve Loan Life Building. Members of the District Committee of which he will be Secretary, in addition to Mr. Fridley, follow: Russell R. Rowles, Rowles, Winston & Co., Houston; James F. Jacques, First Southwest Company, and Hugh D. Dunlap, Binford, Dunlap & Reed, Dallas; John Williamson, Dittmar & Company, and Edward H. Austin, Austin, Hart & Parvis, San Antonio. Claude T. Crockett, Crockett & Co., Houston, is a national Governor of the Association.

With Westheimer Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio—Allen Gundersheimer is now with Westheimer and Company, 30 East Broad Street.

Mutual Funds

By ROBERT R. RICH

RESULTS of a survey by Distributors Group, Incorporated, disclose a wide ownership of mutual fund shares by the men and women who sell them. The per cent of ownership increases with the proportion of his time a salesman devotes to mutual fund selling. Of the full-time fund salesmen, 92% are shareowners, the survey found. Of those giving one-fourth to half their time 84% are owners; while 72% of those devoting less than one-fourth their time to fund selling are owners of fund shares.

Ownership ranged from a few hundred dollars to a hundred thousand dollars, from shares of one fund to shares of 13. A high proportion of owners volunteered comment that fund ownership has proved helpful in making sales.

To date 452 completed questionnaires have been received, a 14% return on a mail survey.

A 100% STOCK dividend was declared today by Diversified Investment Fund, payable Oct. 20, 1952, to shareholders of record Sept. 25, 1952. One additional share of Diversified Investment Fund for each share owned will be forwarded to stockholders next month.

This stock dividend is not taxable. It has the effect of a two-for-one split and will reduce by half the net asset value per share of Diversified Investment Fund. Stockholders will own twice as many shares.

THE AXE-HOUGHTON weekly business index completed its recovery from the effects of the recent steel strike and has now reached a level prevailing throughout most of the last winter and spring. The survey reports that retail trade has shown substantial recovery from the moderately depressing effects of the steel strike, and some of the variety chain stores have reached new high sales records for August. The expansion in retail trade is favorable because retail inventories of non-durable goods increased during the late spring and early summer, creating a need for higher sales to prevent a repetition of the inventory problems of 1951.

CALVIN BULLOCK describes the Canadian Fund, Inc., which the Bullock firm manages, as "85% invested some four months after the initial public offering of the shares."

Portfolio holdings of oil and gas 24.37%, non-ferrous metals 13.97%, and pulp and paper 11.59% were the three largest group holdings of common stocks on Aug. 31. Net assets of Canadian Fund, Inc. now total over $20,000,000.

CANADA GENERAL Fund, after approximately two months of operation, has total net assets in excess of $14,700,000, Henry T. Vance, President of the Fund, reported at the first combined meeting of directors and advisory board members held here yesterday and today.

The advisory board consisting of seven Canadians prominent in the industrial and financial affairs of Canada, is headed by Right Hon. Arthur Meighen, former Prime Minister. Mr. Meighen was the principal speaker at the 118th annual meeting dinner of the Boston Stock Exchange held Monday at Hotel Somerset.

At the joint directors and advisory board meeting, Mr. Vance also reported that the new Fund already has over 10,000 shareholders living in over 30 different states. The investment program of the Fund has made substantial progress, he said. Over 83% of the assets of Canada General Fund are now invested in a diversified cross section of Canadian enterprises, comprising approximately 50 companies in 15 different industries, Mr. Vance stated.

The Fund's list of security holdings will be published in the first quarterly report to shareholders, due to be issued Oct. 25. The percentage of assets invested in various Canadian industries at present is as follows: Mining, 14.3; oil, 13.1; forest products, 12.3; pipelines, 7.0; utilities, 3.2; railroads, 4.3; financial, 7.5; electrical equipment, 2.1; agricultural equipment, 1.0; steel, 3.1; chemicals, 4.2; banks, 0.8; automobile, 1.6; building and construction, 2.3; miscellaneous, 6.9.

In addition to Mr. Vance, the directors of Canada General Fund and some of their affiliations are: O. Kelley Anderson, President, New England Mutual Life Insurance Co.; Kenneth L. Isaacs, trustee, Massachusetts Investors Trust; Vinton C. Johnson, trustee, Century Shares Trust; William F. Morton, Vice-President, State Street Investment Corp.; Robert L. Osgood, Vice-President and director, Boston Fund Inc.; Edward F. Ryan, Vice-President, Boston Fund Inc.; William F. Shelley, partner, Vance, Sanders & Co.; Joseph J. Snyder, Vice-President and Treasurer, Massachusetts Institute of Technology.

NATION-WIDE Securities Company reports that principal common stock purchases during the three months ending Aug. 31, 1952 included 2,500 Diamond Alkali Company, 5,000 Empire District Electric Co. and 2,000 Kansas Gas & Electric Co. Eliminations included Niagara Mohawk Power Corp., Southern Co. and Studebaker Corp.

The fund announced that because of the substantial amount of the current dividend is from net security profits, part of the distribution will be made in stock unless the shareholder requests payment in cash. Nation-Wide declared 23c per share on net investment income and 22c per share on net securities profits.

DISTRIBUTORS GROUP and Blue Ridge Mutual Fund's Research Distributing Corp. announced this week that they will determine the offering prices of their shares at 1 p.m. and 3:30 p.m. to become effective one hour later each business day. The first computed price will be effective until 4.30 p.m. and the second price will be effective until 2 p.m. of the following business day.

Energizing Effect Of Public Money Is Now Failing

Fund Economist Warns That Corporate Profits Have Not Responded to Huge Government Budgets

In a keynote address on Sept. 30, presented at the "American Marketing Speaks Symposium," sponsored by the University of Vermont, Harold X. Schreder, Executive Vice-President, and Director of Research of Distributors Group, Inc. declared "the 'benefits' to our 158 million Americans of vast government spending is open to very serious question."

Harold X. Schreder

Though Mr. Schreder stated he feels "that 1952 as a whole will be another year of high business activity," he added, "government spending appears to have reached that point where it no longer is a stimulant to the economy. The relationship of government spending to private enterprise is like a man being pushed up a hill. It is helpful on the way up; at the crest, however, continued pushing can easily be disastrous.

"Government spending must be paid for either through taxes or inflation. The question is, can you and I and the business corporations stand any more taxes or inflation," was the query put by the mutual fund's economist.

He next pointed out that the cost of living index has risen to an all-time high currently—an increase of nearly 50% since 1946. Also during the last seven fiscal years (1945-52) Federal tax collections amounted to $308 billions. This is 21% more than the $254 billions collected in all the preceding 157 years combined! In fiscal 1952, Federal taxes alone took about 22% of our national income. Add state and local taxes and the total tax load is over 30% of the national income.

"As a result the government has become the big spender these days—but it doesn't seem to be helping the private segment of our economy (despite the political observations to the contrary).

"Specifically," Mr. Schreder contended, "when we analyze the Personal Income situation, we find that **the actual purchasing power of the average American has been in a declining trend since 1945.** While Personal Income has increased over $90 billions since 1945, after it is adjusted for rising taxes and cost of living 'real income' has not increased at all; and on a per capita basis is down from $861 to $779. Moreover, the average person's net worth (assets less sharply-increased debts) has declined."

Continuing his analysis, Mr. Schreder remarked: "The corporate profits figures also clearly reveal that this segment of the economy has not been benefited by the greatest government spending program of all time. The government has spent over $325 billion ($161 billion for national defense) since 1946, and all corporate sales have more than doubled to an all-time high of over $500 billion. Yet, net all-corporate profits are currently running at the lowest level since 1946. As a percentage of sales, net corporate profits this year will probably average about 3.3% — the lowest ratio of corporate net profits to sales since 1938. American industry cannot afford to get caught with its plants down today. A small drop in business volume could prove embarrassing.

"In short, all the fantastic government spending has cost so much in terms of taxes and inflation that it has not increased the average purchasing power of individuals or the net earnings of corporations as a whole.

"With the burden of proof for continued prosperity shifting to the private segment of the economy, especially to the consumer (you and me), it is quite apparent that one must watch with great care the factors and indices relating to the consumer's attitude toward spending. The future course of business may well depend largely on whether or not consumers decide to increase their spending as spending by the government and private business tapers of. The most practical and certain way to encourage private spending would be to lower Federal income taxes (and government spending). If this should appear as a likely prospect, maintenance of a high level of business activity, profits, dividends and stock prices might be assured for a protracted period."

VALUE LINE Income Fund Inc. has appointed Chemical Bank & Trust Co. transfer agent for 823,200 shares of capital stock, $1 per share par value, of which 23,000 shares are outstanding.

OPEN-END REPORTS

CANADIAN FUND, Inc., under Calvin Bullock management, reports that total assets, with securities valued at the market, now exceed $20,000,000. The Fund's shares are owned by more than 10,000 stockholders residing throughout the United States.

Canadian Fund, Inc. an open-end investment company since May 15 last, was the first and the largest of similar companies designed to serve American investors seeking to invest in the growth of Canada.

According to the most recent portfolio, the 10 largest common stock holdings in the Fund's portfolio in order of percentage of total net assets were:

International Nickel Co. of Canada. Ltd.; Canadian Pacific Railway Co.; Hudson Bay Mining & Smelting Co. of Canada, Ltd.; Consolidated Paper Corp., Ltd.; Price Bros. & Co., Ltd.; British American Oil Co.; Powell River Co. Ltd.; Consolidated Mining &

Smelting Co. of Canada Ltd.; Gulf Oil Corp.; Socony-Vaccum Oil Co., Inc.

THE GEORGE PUTNAM Fund of Boston reports for the three months ended Sept. 30, 1952, increases in total net assets to $57,-

815,000, in shares outstanding to 3,087,151 and in number of shareholders in excess of 20,000. The increases represent new high points in the history of this 15-year-old balanced fund.

A year ago there were 16,900 shareholders, 2,722,800 shares outstanding and total net assets were $51,727,000.

In the past three months, the management of the fund reduced the percentage of assets invested in common stocks from 63% to 60% and increased holdings of cash and equivalent.

New purchases of common stocks were concentrated largely in rails, chemicals, utilities, and insurance companies. Holdings of oil, mining and metal, and steel stocks were reduced slightly. As of Sept. 30, the Putnam Fund's largest common stock investments were in the following industries, in order of current market values: railroads, oils, chemicals and drugs, electric utilities, and insurance.

Holdings in the following common stocks were increased during the quarter: Aetna Life; American Stores; Draper Corp.; Florida Power; Florida Power & Light; General Public Utilities; General Reinsurance; Gimbel Brothers; Great Northern $6 Preferred; Hartford Fire; Illinois Central; Kennecott Copper; MacMillan & Bloedel Ltd. Class "B"; Merck & Co.; N. Y. Central; Chas. Pfizer; Seaboard Air Line; U. S. Fidelity & Guaranty and Utah Power & Light.

PERSONAL PROGRESS

ELECTION of James M. Farr 3rd as a Vice-President and a director of the Investment Counsel firm of Douglas T. Johnston & Co., Inc., 247 Park Avenue, New York City, was announced yesterday by Douglas H. Johnston, President. Mr. Farr has also been elected a Vice-President and a director of The Johnston Mutual Fund Inc., an open-end mutual fund managed by Douglas T. Johnston & Co.

Mr. Johnston also announced the election of Pierre La Tour as an Assistant Vice-President of the Investment Counsel firm.

Following his graduation from Princeton in 1920 Mr. Farr spent a number of years in domestic and foreign banking, in New York and Tientsin, China. Since 1931 he has been engaged in investment management. Mr. Farr resides in Wilton, Conn.

INVESTORS DIVERSIFIED Services, Inc., of Minneapolis, has moved its southern regional sales office to Memphis and has appointed Lloyd F. Winters, Manager of the Memphis divisional office, as southern regional Sales Manager, it was announced by Grady Clark, Vice-President and General Sales Manager of I. D. S.

Associated with I. D. S. for several years as a zone manager in Houston, Texas, Winters began his business career as a newspaper man on a weekly in Savonburg, Kansas, later publishing and operating weekly newspapers in Moran and Osage City, Kansas. He later was employed in the advertising department of the Kansas City "Star" before joining the I. D. S. securities distribution force prior to World War II. He served as a United States Navy officer for four years in the Pacific theater and rejoined I. D. S. after his discharge.

As Divisional Manager representing I. D. S. in Memphis, Winters had been among the company's national leaders in area sales of face-amount certificates and mutual fund investment shares distributed by I. D. S. Under his leadership the Memphis divisional office ranked third among all national offices in total sales during 1950 and 1951.

As southern Regional Sales Manager, Winters will supervise sales and service operations of I. D. S. divisional office and zone distributors in Alabama, Arkansas, Tennessee, Louisiana, Mississippi, Oklahoma, Texas, and part of Kansas and Missouri.

CLOSED-END NEWS

Directors of The Equity Corp. and First York Corp. on Monday announced the calling of a special meeting of stockholders to be held on Oct. 31, 1952, to act upon a proposed merger of Equity and First York. The proposed merger in which Equity will be the continuing corporation will eliminate another holding company in the Equity group. Furthermore, the elimination of one corporation will decrease general operating expenses necessarily involved in maintaining the separate existence of two large corporations and will eliminate, among other taxes, the tax on dividends payable by First York to Equity.

Under the merger terms each share of $2 preferred stock of Equity will receive one share of $2 convertible preferred stock of the Continuing Corporation; each share of class A stock of Equity will receive one share of class A stock of the Continuing Corporation; and each share of common stock of Equity will receive one share of common stock of the Continuing Corporation.

Each share of $2 preferred stock of First York will receive one share of $2 convertible preferred stock of the Continuing Corporation; and each share of common stock of First York will receive 1½ shares of common stock of the Continuing Corporation.

Transfer books are being closed until the day of the meeting.

Continued from page 16

SEC Adopts New Registration And Prospectus Rules

"offer to sell," "offer for sale," "attempt or offer to dispose of," or "solicitation of an offer to buy" as used in Section 2 (3) of the Act. *Provided* that the identifying statement is not used until ten days after it has been filed as a part of a registration statement under the Securities Act of 1933, unless the Commission notifies the issuer that it may be used earlier.

(b) **Definition of "identifying statement" and "proposed form of prospectus."** For the purpose of this rue, the term "identifying staement" means a written communication or advertisement meeting the requirements set forth below; the term "proposed form of prospectus" means a document meeting the requirements of Rule 131.

(c) **Required information.**

(1) The identifying statement shall contain the following legend in type as large as that used generally in the body thereof:

"This is not an offer to sell these securities. They are subject to the registration and prospectus requirements of the Federal Securities Act. Information about the issuer, the securities and the circumstances of the offering is contained in the prospectus which must be given to the buyer."

(2) The identifying statement shall indicate from whom copies of the prospectus or proposed form of prospectus may be obtained and shall include a detachable form for use in requesting such copies: *Provided* that this information need not be included in the identifying statement as filed, in which event it must be added by the person who sends, gives or publishes the statement. The detachable form shall be substantially as follows: "Please send me a copy of the prospectus [or proposed form of prospectus] relating to

____

Name ________________________

Address ______________________

(d) **Optional information.** The identifying statement as used may briefly state any or all of the following items of information, which need not follow the numerical sequence of this paragraph.

(1) The title of the security;

(2) The name of the issuer;

(3) The general type of business of the issuer;

(4) The price of the security;

(5) The yield, in the case of a debt security with a fixed interest provision;

(6) The price at which, the conditions upon which, and the time when, the security may be redeemed or converted or exchanged or, if the security is a right or warrant or is offered by means of a right or warrant, the terms of such right or warrant with respect to price and the conditions and time of exercise;

(7) Whether the security is being offered in connection with a distribution by the issuer or in connection with a distribution by a security holder or both;

(8) Whether the security is traded over the counter or is, or is reasonably expected to be, listed or admitted to unlisted trading privileges on specified exchanges;

(9) Whether, in the opinion of counsel, the security is a legal investment for savings banks, fiduciaries, insurance companies, or other similar investors under the laws of any state or territory o the District of Columbia;

(10) Whether, in the opinion of counsel, the security is exempt from specified taxes;

(11) The extent to which the issuer has agreed to pay any tax with respect to the security or measured by the income therefrom;

(12) Whether the issue represents new financing or a refunding operation or both;

(13) The title and number of shares or other units or (in the case of debt securities) principal amount of each class of outstanding securities;

(14) The amount of securities being offered;

(15) A legend in substantially the following form (or any part thereof):

"The registration statement covering these securities is not yet effective. No offer to buy or sell the securities should be made and no offer to purchase the securities will be accepted until the registration statement has become effective. The publication of this notice is no assurance that the proposed offering will be made or as to the amount of securities, if any, that will be available for distribution by this firm."

(16) Any legend required by law of a state in which the identifying statement is to be used.

(e) **Prohibited statements.** The identifying statement shall not contain any information other than that specified above.

(f) **Variance between identifying statement as filed and as used.** The identifying statement as used shall be a copy of the identifying statement as filed with the Commission, provided:

(1) The identifying statement as used shall include the statement and form specified in paragraph (c) (2) and may include the legends specified in paragraphs (d) (15) and (d) (16), even though such statements, legends and forms are not included in the identifying statement as filed with the Commission;

(2) Any person using the identifying statement may omit any item of information specified in paragraph (d), even though such information is contained in the identifying statement as filed with the Commission;

(3) Where an amendment to the identifying statement is filed with the Commission, any person using the identifying statement shall incorporate the amendment as promptly as practicable, except as otherwise provided in clause (2) of this paragraph;

(4) After the effective date of the registration statement, any person using the identifying statement shall make such corrections in the information contained therein as, to his knowledge, may be necessary to prevent it from being misleading.

(g) **Proceedings under Section 8.** This rule shall not apply when the registration statement is the subject of public proceedings which are pending under Section 8 (b), 8 (d), or 8 (e) of the Act, or of a public order entered under any of such sections.

Text of Rule 414

The text of Rule 414 is as follows:

Rule 414. **Identifying Statements.**

Every registration statement shall include as an exhibit a form of identifying statement which states briefly such of the information listed in paragraph (d) of Rule 132 as is available elsewhere in the registration statement, together with the legend specified in paragraph (c) (1) of that Rule.

Text of Rule 431

The text of Rule 431, as amended, is as follows:

Rule 431. **Prospectuses Supplementing Preliminary Material Supplied Previously.**

A prospectus meeting the requirements of Section 10 may consist of a copy of the latest proposed form of prospectus meeting the requirements of Rule 131 and a document containing such additional information that both together contain all of the information required to be included in a prospectus for registered securities: Provided that—

(1) The proposed form of prospectus, is incorporated by reference into and made a part of the document;

(2) Where the proposed form of prospectus has been sent or given before the effective date of the registration statement, the document is sent or given not more than 20 days later; and

(3) Where the proposed form of prospectus is sent or given after the effective date of the registration statement, the document is attached thereto.

South Texas Oil & Gas Common Stock Offered

Hunter Securities Corp. of New York City are offering "as a speculation" an issue of 748,000 shares of South Texas Oil & Gas Co. common stock (par 10 cents) at 40 cents per share.

The net proceeds are to be used to pay for drilling expenses, for acquisition and extension of leases and for other corporate purposes.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

GARDNER, Maine — Eugene L. Mooers is now connected with Waddell & Reed, Inc.

Joins A. C. Allyn Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Winsor Gale has become associated with A. C. Allyn & Co., Inc., 30 Federal Street. In the past he was with Ballou, Adams & Whittemore.

Continued from page 12

The Federal Fair Trade Law

teeth if it were to cope with jungle competition. It got them in the non-signer clause. Without the non-signer clause, then, fair trade is as meaningless as any law which applies only to those who will voluntarily observe it. How would we like to have traffic laws which do not apply to hit-and-run drivers? How would we like to have a criminal code which doesn't apply to housebreakers or murderers?

The non-signer clause has been distorted and misrepresented as some kind of handcuff on the unwilling retailer. Actually, no retailer is required to handle any fair-traded merchandise. The most generous estimate shows that fair trade accounts for less than 10% of the total retail sales volume in America. Accordingly, there is plenty of non-fair-traded merchandise available to any retailer who does not like the fair trade.

If a merchant chooses to stock a fair-traded product knowing that it is fair-traded, however, the non-signer clause requires him to observe that product's fair trade price. This is a part of his State's system against unfair competition. It is clearly a condition of sale attached to the product, a safeguard for the property value of the manufacturer's trade-mark. The retailer is perfectly free to sell that product at any price he chooses, even to give it away, if he removes that trade-mark. He has certainly bought the individual product. But he has not bought the trade-mark and he does not, by any stretch of the imagination, have the right to debase it or to use it as a weapon to put other retailers out of business.

The United States Supreme Court has said all this of the non-signer clause in its best judicial style. The Supreme Court said this in 1936 in a decision the opponents of fair trade like to forget about. It was a unanimous decision upholding the constitutionality of the State fair trade laws. Any future test of the McGuire Act before the high court of our land on the issue of constitutionality must take into account this 1936 decision. Here is what the Supreme Court said of the non-signer clause in that decision:

"The challenge (against the Illinois State Fair Trade Act in the Old Dearborn case) is directed against Section 2, which provides that willfully and knowingly advertising, offering for sale or selling any commodity at less than the price stipulated in any contract made under Section 1, whether the person doing so is or is not a party to the contract, shall constitute unfair competition, giving rise to a right of action in favor of anyone damaged thereby.

"It is first to be observed that Section 2 reaches not the mere advertising, offering for sale, or selling at less than the stipulated price, but the doing of any of these things willfully and knowingly. We are not called upon to determine the case of one who has made his purchase in ignorance of the contractual restriction upon the selling price, but of a purchaser who has had definite information respecting such contractual restriction and who, with such knowledge, nevertheless proceeds willfully to resell in disregard of it."

Let me stress these final words about a retailer "who, with such knowledge, nevertheless proceeds willfully to resell in disregard of it." This is a very precise description of what some of the opponents of fair trade are today doing in the marketplace. They are deliberately seeking to get a day in court in the hope of killing fair trade for good. They are defying Congress, the U. S. Supreme Court and their own State laws. The victory fair trade has just won has not deterred those who prefer to conduct business by methods which 45 States have defined as unfair competition. They are gathering their forces together for another battle—in the courts—in the hope that those who sit on the bench will undo the legislation enacted by those who sit in Congress.

I recognize that fair trade is not yet fully understood by the general public. I recognize too that the opponents of fair trade are trying to create a general bias against fair trade. The numerous supporters of fair trade must be prepared to meet this challenge. The facts on and the philosophy of fair trade must be brought to the American people—just as they were brought to the Congress. The opponents of fair trade will continue to do everything possible to throw fair trade out of focus in the public mind. It is up to all of us to put fair trade in focus for the public, so that they will be able to see fair trade in its true perspective as a tested benefit to our whole economy.

Does Not Restrain Competition

One of the most frequently repeated charges against fair trade is that it is a restraint upon our system of free competition. I often wonder whether those who take this tack are bemused by theory and blind to reality. Could it be that they are hypnotized by a model of an economy that hasn't really existed since the first laws were enacted by Congress to restrain unfair competition and the growth of monopoly power. The fact is that the people of our American democracy long ago found that the human results of unbridled competition, with no holds barred, were sadly different from the theories about how free competition should work. In practice, in the marketplace, unbridled competition becomes brute competition. It becomes gang rule where might makes right. The little fellow is ruthlessly disregarded and sacrificed to the mythical idol of unrestricted competition when any business method, foul or fair, can be used without regard to its effect in society.

This whole approach to the economic side of life reminds me, painfully, of the totalitarian credo—the end justifies the means. Fortunately, the American people will not buy this kind of false philosophy. They insisted that restraints be put upon the forces of brute competition so that the human factor would not be trampled underfoot. The Sherman Anti-Trust Act of 1890 was such a restraint. The Federal Trade Commission Act and the Robinson-Patman Act and the Securities and Exchange Act are all restraints upon competition; these laws are now universally regarded as enlightened restraints, although they were bitterly opposed by many when they were introduced. The fair trade acts are similar restraints and they are in this great tradition of tempering individual liberty with concern for the social good.

Let me be more specific. The broad purpose of the anti-trust laws is to prevent the growth of monopoly power and the evils it produces. As a means to this end, the anti-trust laws prohibit horizontal price-fixing, collusive price-fixing between competitors. The broad purpose of the fair trade laws is also to prevent the growth of monopoly power. As a means toward this same end, the fair trade laws permit vertical resale price maintenance between seller and buyer only under conditions of full and fair competition. Fair trade thus promotes fair competition by insuring that there will be plenty of competitors. Like the anti-trust and other laws, then, the State fair trade laws curb unfair competition in order to promote fair competition. Fair trade curbs the ruthless behavior of retailers who use superior dollar power to eliminate small competitors and who trick the consumer without benefit to her pocketbook.

Competition Has Increased Under "Fair Trade"

I do not hear outcries from the opponents of fair trade for the repeal of the anti-trust laws on the theory that they restrict free competition. Consistency would seem to require them to do so; instead, they condemn fair trade, apparently because it is a similar restriction. Yet under fair trade, in the past 21 years, the number of competitors and, therefore, the extent of competition, has increased. The Department of Commerce shows that the number of retailers in this country has increased by 300,000 since the advent of fair trade. This increase has taken place concurrently with a great and unparalleled growth in giant retailing. What might have happened these past 21 years, if there had been no fair trade laws, is a matter for speculation. The spectacle of the price wars las year, however, provides ample justification for the belief that without fair trade, many retailers, wholesalers and manufacturers—the backbone of small business in America — would have been squeezed out of existence despite the extraordinary rise in U. S. national income.

The opponents of fair trade would do well to take a look at what has happened to the American marketplace in the last two decades. They will find that retail competition has increased enormously in scope and in complexity. They will find giant retailers all over the landscape, equipped with huge dollar resources and vast operating facilities. There are now some 400 giant retailers in the United States, with 100,000 outlets. The top 20 of these mammoths—just 20—will this year sell 25% of all the merchandise sold over the counter in this country. Most of these giants are bigger than 99% of the manufacturers of national brands.

These giant retailers carry manufacturers' trade-marked brands which are the bread and butter of the small retailer, but all of them also have their own powerful store-controlled brands, which are as national as any manufacturer's brand. The interest of these stores in their own store-controlled brands is reflected in the fact that the store-controlled brands of one giant retailer account for 90% of that store's total annual sales volume of $2.6 billion.

Without fair trade, at the first breath of a price war, these giants would not hesitate to drive well-known national brands down to bankruptcy levels — bankruptcy for small business. It is significant, however, that the giants have absolute price control over their own store-controlled brands, without any reference to fair trade. The giant retailer sets the price arbitrarily at which all his outlets will sell a specific store brand.

In this context, if fair trade were outlawed, national brands and the independent retailers who carry them would be exposed to new lows of vicious price-juggling. But the store-controlled brands of the giants would be unscathed. Thus, if the opponents of fair trade had their way, the price wars of the future would leave the marketplace strewn with the wrecks of small businesses, while the giant retailers would march on to monopoly, to the detriment of the American consumer.

Fortunately, we have fair trade to safeguard fair competition. But it offers no bed of roses, no chance to relax to manufacturers and distributors of national brands. The price challenge of the giant retailers' store-controlled brands is here to stay and must be met. So it is clear that fair-trading manufacturers must establish minimum resale prices for their products which will meet this competition. This kind of competition is good for the American economy. It energizes industry and serves the consumer's best interests. It is the best kind of competition, fierce but fair, where the efficient little man gets a chance to stay in business for himself if he has what it takes. It is competition with fair trade and fair play.

Fair Trade Not "Price Fixing"

It is indeed ironic that fair trade is singled out for the "slings and arrows" of distortion and misrepresentation. It is called "price-fixing" because it is based on resale price maintenance. Opponents find it convenient to ignore the fact that fair trade is one—and only one legal framework for resale price maintenance. The fact is that the greater part of legally accepted resale price maintenance in this country has nothing to do with fair trade. I have cited the store-controlled brands of giant retailers. The twenty top giants alone did $15 billion in sales last year; the majority of these sales were accounted for by their price-controlled, store-controlled brands. Exclusive of this, at least $30 billion in trade-marked goods are sold every year through forms of resale price maintenance which are based on legal frameworks other than fair trade. Newspaper and magazine publishers, through consignment selling, require every newsdealer to sell their publications at prices established by the publisher. If a newsdealer were to sell a newspaper below the publisher's established price, he would immediately find himself with no papers to sell. Automobile manufacturers, through exclusive dealerships, can and do suggest resale prices to their dealers—and these suggestions are acted upon. Roughly speaking, for every dollar of vertical resale price maintenance in America based on fair trade, there are five dollars of maintained prices not based on fair trade. And this estimate does not include the additional billions represented by sales of the price-maintained, store-controlled brands of the giant retailers.

It should be noted that fair trade is the only form of resale price maintenance which specifically requires competition in the very language of the fair trade statutes. Both the state statutes and the McGuire Act stipulates that no product may be fair-traded unless it is in free and open competition with articles of similar class produced by others.

There is nothing complicated or sinister about price maintenance. In whatever form it is used, it has the same purpose, namely, to guard a producer's trade-mark and his distribution system from the disintegration caused by price wars. A manufacturer's right to safeguard the property value of his trade-mark, the symbol of his business reputation, is at the very core of the philosophy of fair trade just as it underlies all other systems of resale price maintenance. Indeed, the whole controversy about fair trade is essentially the very simple question of what rights a manufacturer retains in his trade-marked product after that product has passed into the hands of distributors. In the final analysis, the manufacturer has the greatest stake in his trade-marked product. He has developed the product, through years of hard work, research investment and merchandising, to the point where it wins wide customer acceptance, with his trade-mark serving as a seal of quality. Must he be forced to risk the irresponsible destruction of all he has built up, must he stand helplessly by while price jugglers debase his product in the public eye, making both the manufacturer and his honest distributors appear to be guilty of extortion?

The State fair trade laws recognize this problem and offer a practial solution for it. The U. S. Supreme Court and the Congress has upheld this approach. Actually, fair trade is an indispensable part of the great brand-name economy that has grown up in America since the last century. This brand-name economy makes it possible for the consumer to buy goods of a standard quality again and again, through the identification and endorsement of the manufacturer's trade-mark. Consider how this brand-name economy has played a vital part in the development of our mass production system which has given us the highest standard of living in the world. The mass production of consumer goods requires a mass market for these goods, if the economics of the assembly line are not to clog up and break down, with consequent business chaos. Brand names and trade-marked products have built this mass market through nation-wide merchandising and national advertising.

At the same time, the brand-name economy has helped small business to exercise a significant and indispensable function in the distribution of national brands. The giants of the retailing world, as we have seen, can develop their own store-controlled brands as keen contenders for the customer's favor. This, the small store cannot do. He cannot sell unknown merchandise on his own reputation because he does not have the capital, the merchandising and research resources and the advertising budget to compete on such terms with the giants. He can and does sell advertised national brands where the trade-mark denotes that the manufacturer's guarantee of quality stands behind every sale. Without national brands, without the trade-mark protection at the retail level provided by fair trade, small business would wither away.

"Fair Trade" Does Not Mean Higher Prices

The opponents of fair trade are still making and will continue to make a false hue and cry that fair trade means higher prices. They have a $2 billion lie — a real whopper. They claim that fair trade costs the American people about $2 billion a year. I am going to give you the answer to this lie so you will be prepared the next time you meet it. The lie is based on spurious figures obtained by shopping around for loss leaders offered by certain stores at certain times. This is hardly scientific. You can always find what you want when you start out with an angle. If these same stores had been shopped at the same times for the worst bargains, the high-profit merchandise that they push with their offer of loss-leaders, the conclusion would have been that these stores are mulcting consumers every day.

Those who fabricated the $2 billion lie compared the loss leader prices and the fair trade prices of certain, highly selected items. They found that at the time these loss-leader items were purchased from a few stores, their prices averaged 15% below fair trade prices. They then assumed that all retailers in America could and would sell all fair-traded merchandise at all times at 15% less than fair-trade prices—if the fair trade laws were repealed. They further assumed that fair trade accounts for $15 billion of annual retail sales volume.

These assumptions are patently

unwarranted. Nobody actually knows what this figure for fair trade sales is, but the most informed guess is that it is about $6 billion. As to the ability of all retailers to sell fair-traded merchandise for 15% less, the fact is that America's retailers actually pay out of their own pockets about $4 billion for the fair-traded goods which they sell for about $6 billion. For the $2 billion indictment to be sustained, all America's retailers would have to go broke, selling all fair-traded goods for exactly what they paid for them. There would be no money left for rent, salaries and the thousand and one other items that enter into the cost of running a business.

Far from penalizing the consumer, fair trade prices, very impressive evidence has proved, benefit the consumer. Nation-wide research shows that in the 13 years from 1939 to 1952, the prices of over 7,000 fair-traded drug store products rose only 16.4% while the over-all cost of living index soared 90.2% in the same period. Further, two six-month, country-wide surveys in 1949 and 1951, by the world's largest independent research agency, A. C. Nielsen Co., has revealed that consumers pay less, over-all, under fair trade for leading national brands of drug products than consumers who live in areas without fair trade paid for the same products.

Consumers themselves have shown in the most impressively practical way that they like fair trade prices. In the past 20 years of fair trade, they have consistently bought more fair-traded goods when they were quite free to buy other competing, non-fair-traded products.

It is clear, on the basis of this record, that fair trade prices have in no way caused inflation. All last year, when fair trade was virtually inoperative because of the Schwegmann decision, the cost of living continued to rise. When the Supreme Court weakened fair trade in May, 1951, the cost of living index stood at 185.4. One year later it stood at 188.7. So the absence of effective fair trade did not ease the heavy burden of inflation.

Law Covers Mail-Order Business

I would like to clear up one important point with respect to the McGuire Act and the problem raised by the Wentling decision of the Third U. S. Circuit Court of Appeals. Under this decision, mail order houses and other retailers who sell across state lines can disregard the fair trade laws in their own and other states. The McGuire Act contains a specific provision designed to meet the Wentling decision. In paragraph 4, it says that neither the making of fair trade contracts or agreements, which include the non-signer clause, nor their enforcement under state law "shall constitute an unlawful burden of restrain upon, or interference with, commerce."

As with all the provisions of the McGuire Act, paragraph 4 simply recognizes the rights of states to establish and carry out policies to restrain unfair competition within their borders, including transactions in which the goods have moved in interstate commerce.

Whether the McGuire Act's provision to meet the Wentling barrier is adequate from a judicial standpoint, only subsequent court decisions can reveal. It is the considered judgment of many legal experts on fair trade that this provision is adequate. Further, the courts in interpreting the McGuire Act, will have before them the expressed intent of the Congress with respect to the Wentling problem. In floor debate on the McGuire bill, the day the House passed it, Rep. Robert T. Ross (Rep., N. Y.) said in a speech strongly endorsing the McGuire bill:

"It provides further protection to small business in the case of fair-traded goods sold by mail order, by prohibiting setting prices to an out-of-State buyer lower than the minimum prices in the State where the mail-order operation is located."

In floor debate on the Senate on the day the McGuire Act was passed, Senator Schoeppel of Kansas said:

"The Wentling decision holds that the enforcement of a State fair trade act in any other State having a fair-trade law constitutes an unlawful burden upon, and an interference with, interstate commerce. The Wentling decision's practical effect is to permit mail-order houses and other retailers who sell across State lines to disregard the fair-trade laws of 45 sovereign States . . . Paragraph 4 of H. R. 5767 (the McGuire bill) would overcome the Wentling decision. . . ."

I believe it is significant that every amendment proposed for the McGuire bill to meet the Wentling problem through language that established a Federal fair trade policy was rejected by the Congress. The McGuire Act does not establish Federal fair trade policy, nor does it require a single cent or Federal money or a single iota of Federal enforcement. It does not force fair trade on any State. It does enable those States which want effective fair trade to have it.

Fair trade plays a vital role in keeping our society an open society, a society in which everyone has the chance to move upward, to become his own boss. This freedom of opportunity is one of our proudest traditions. Fair trade guards freedom of opportunity in our land because it helps small business to survive and thrive in even an age of huge retail organizations with vast aggregations of capital. By restraining the unfair competition of price-juggling — a powerful weapon by which the giants of retailing can destroy and eliminate their small rivals—fair trade ensures the continuing existence of small business. Unless small business is kept in the running by fair trade, all those Americans who have the unquenchable urge to work for themselves rather than for others, will find the door of opportunity slammed tight against them. The American dream of the right of the little fellow to achieve independence will become an empty and mocking delusion.

At this present time of trouble and insecurity, the preservation of this dream and this right becomes more vital than ever. When we examine the history of the rise of totalitarianism, we find that people turn to it when their lives are without hope, when a bleak future of poverty and economic subjection stretches endlessly before them. This is when bread seems more important than freedom.

But when millions of citizens own their business, own property, work their own land—and when those who do not are guaranteed the chance to rise into these economic groups—they are then secure against the blandishments of the false messiahs of collectivism.

It should be clear that whether or not small business remains intact is more than a matter of economic preference. It involves some of our most cherished institutions. For small business is essential to our political and social democracy. Fair trade is essential to the continued existence of small business. That is why the Congress of the United States passed the McGuire Act to restore fair trade to full effectiveness. That is why I am satisfied that fair trade will withstand the current attacks on it and that it will emerge more firmly secure than ever as one of the major bulwarks of fair competition. Fair trade is definitely here to stay.

Continued from page 14

Agricultural Control in U.S.

terated economic *laissez-faire* but rather that it has been characterized by almost complete managerial freedom. Freedom of action of the family farm proprietor in moving wherever he liked, buying whatever equipment and supplies he thought needful and could afford, producing whatever seemed most promising, and selling his produce wherever and however he could net the "high dollar"—these features made up its essential pattern. In order to make this way of life most productive, in the interest both of farm producer and town consumer, Government has, however, been active in several ways. In the cogent phrase of John D. Black, this system has been one of "assisted *laissez-faire*."

The first principle of this system is that individual farmers should have easy access to lands suitable for agricultural use and that ownership should be in fee simple. To enlarge this supply of land for the individual proprietor or to improve the usability of lands already appropriated, Government has stepped in with a variety of reclamation works—some large, some small; some Federal, some local—designed to furnish irrigation or drainage or a combination of both.

In order to facilitate farm production and to ameliorate rural life, public monies have been spent, often disproportionately, to enlarge the highway network to include farm-to-market roads suitable to an automobile age and to provide rural free delivery of both mail and express.

Likewise in the interest of making the farm both a more efficient place to work and a more pleasant place to live, Government has progressively provided for the widespread distribution of electricity for light and power and of telephone service for business and pleasure to farmers who elected to settle and work in areas so remote or so thinly populated that private enterprise was not, at the given time, ready to extend them these services on a commercial basis. It is now estimated that 85% of our family farms have been enabled to avail themselves of the choice of electricity, nearly 40% have telephone service available, and practically any farm family can get rural free delivery of mail and parcel post by merely erecting a standard box.

A fourth feature of our system by which managerial freedom was preserved by helping it to rise to a high level of efficiency was through an elaborate system of educational aids. This educational and research complement of the individual proprietor's traditional technique began with the agricultural college almost 100 years ago. It expanded into a system of 48 agricultural experiment stations, flexibly coordinated through a Federal office, a far-flung system of extension specialists, scientific and practical agricultural curriculums in the high school, boys' and girls' farm clubs, and local adult study groups, Farm Bureau and other. All this is to the end of making factual information constantly available and of giving the farmer better analytical tools for using it in his business decisions. Advice is available if it is sought, but control or even constraint are no part of this picture.

Fifth, we may mention the development of government standards— as to grade, as to package, and as to trade practices. By them, the individual farmer is protected against exploitation and helped to continue, as an independent proprietor, to choose freely among processors, commercial dealers, and other distributive agents according to his own judgment or convenience. The establishing of these standards constrains his own action only to the extent that it prevents him from indulging either in careless or in fraudulent practices which would demonstrably harm the consumer, the distributor, or his fellow producers—eventually himself in the collective sense. He is not free to follow the line of managerial freedom to an extreme which infringes the rights of his neighbors or jeopardizes the welfare of the community. Weed control, the compulsory vaccination of animals, sanitary standards of dairy production, and uniform spraying of fruit trees are convenient illustrations. And there have been some quite successful movements toward voluntary limitation of private productive efforts by standardizing breeds or types of livestock, field crops, or horticultural products.

Sixth, during the last three decades, the efficiency and security of the individual farm manager has been strongly bulwarked through the perfection of our credit institutions in their rural department. The long-term amortized mortgage at rates as low as are consistent with the general money market and the comparable provision of short-term production and marketing credit have given the farmer access to the sources of capital in ways that are essential to the full and efficient exercise of his managerial freedom.

Finally, in spite of the inherently small-scale character of farming, the development of the institution of the cooperative association under legislative sponsorship has enabled farmers to secure group or large-unit efficiency in the performance of many functions of the farm without sacrificing basic freedom of managerial choice. In the agricultural depression of the '20s, efforts were made to give national cooperative associations a monopoloid character which would make them a position factor in determining the level of farm commodity prices.

These seven features cover—I think with essential accuracy and completeness—the economic pattern of agriculture which had evolved in the United States up to the end of World War I. It had by no means kept the pioneers from privation. It had not given rural people a protective armor against any exploitation by industrial, commercial, and financial groups as the latter from time to time developed new power devices of their own. Nor had it provided an economic stabilization mechanism against cyclical depressions following war or breakdown stemming from some other cause. By the 1920s, public opinion was ready to make a break with the old logic of institutional voluntarism for agriculture and to seek to develop a new way of economic life so basically different that in the historic perspective of today, it seems fair to call it revolutionary.

From Voluntarism to Central Planning

The new philosophy of economic life which from 1921 forward has commanded the allegiance of an increasingly potent ideological group is based on the proposition that locally autonomous solutions of managerial problems cannot, in the nature of the case, add up to a solution correct in the aggregate. It proposes, therefore, to start at the other end of the line by computing national aggregates (within the international setting) and then devising an administrative machinery which shall be effective in breaking these aggregates down to individual farm components without infringing unduly our traditional sense of personal freedom.

It was the reaching of an apparent ceiling on the ability of individual proprietorship, even voluntarily associated in cooperative organizations, to be effective at the point where the market mechanism affects the determination of prices, that led—23 years ago — to the adumbration of a logic of government control within the agricultural industry distinctly at variance with the American farm system up to that time. With the accumulation of these two decades and more of practical experience with a system of positive regulation for the agricultural industry, it should be possible now to set forth with some clarity the logic upon which it proceeds and to compare it with the logic of the older, looser system. We need to reach a reasoned basis for concluding that such positive control presents a better logic for the rural economy or that, for us and our times, it presents a less convincing logic.

To such an end we must first set out the basic thesis of the central-direction theory. Since it did not propose to uproot the old practice of family farm management and supersede it with a wholly different pattern of collective farms, we need to see step by step how the new aggregate approach was added to the older disparate practice.

The decade 1922-1932 was a transition period of great historic importance in the history of American agriculture. The drastic conditions of a severe and persistent agricultural depression persuaded many farmers that managerial freedom within a setting of facilitating institutions—educational, advisory, credit-supplying, and market-improving — was not adequate to meet their needs. They read the history of their times as indicating that they could not prosper except as they gained control of aggregate supply and manipulated it to get significantly higher net prices for the products they sold and/or sufficiently lower prices for the things farmers buy so that their real income position would be materially improved. They sought a way to organize their group power against the organized power of marketing agencies, processors of farm products, and the manufacturers and merchandisers of farm equipment, supplies, and services.

The first small step in this direction was taken through the formation of central cooperative associations. The logic of the earlier local and overhead co-ops was that they should improve the economic process of adjustment of local supply conditions to general demand and should interpret general and special demand situations to producers of the various commodities. That is, like the independent farm manager, they sought to perfect rather than to supplant the apparatus of the autonomous commercial market as the mechanism for distributing the income stream and guiding the productive process. In time—and more actively during the years after World War I and before the Agricultural Marketing Act of 1929—federated or centralized cooperative associations undertook to perform not merely the current adjustment of supplies to competitive demands but sought also to equalize supplies between producting years under a more ambitious interpretation of the concept of "orderly marketing."

At this point we see the allegiance of American agriculture to the doctrine of managerial individualism giving away to a new

Continued on page 38

Continued from page 37

Agricultural Control in U. S.

faith in the efficacy of a larger plan of organization in which the individual farmer would be a compliant part. The "commodity marketing" associations of the 20's undertook to pool the selling operations of considerable groups of producers, who made firm and legally enforceable contracts for the exclusive distributive service of the overhead marketing agency. These agencies sought to administer or manipulate the total supply to the greatest advantage of the group and to have all members or all of a particular category of members share equally in the return rather than have their receipts differentiated according to individual luck, shrewdness, or strategic position. Generally speaking, also, these large cooperatives expected to derive some market advantage from the building up of a monopoloid position in the market. Almost never did they acquire or seek to exercise quantitative control of supplies though they did develop qualitative regulations which might limit total market supply or limit supplies in particular segments of the market through grade or delivery-time regulations.

By 1929, farm demands and public acceptance moved a step further. In the Agricultural Marketing Act of that year, a distinctive change was introduced into our agricultural institutions. Its logic rested on the premise that it was desirable to have a larger scheme of "orderly marketing" or supply equalization, both areal and temporal, than any contemplated or attainable by private cooperatives. Thus the Federal Government undertook to carry the national surplus in several major products and to administer it under an eight-man board of economic strategy — the Federal Farm Board.

The Agricultural Marketing Act certainly did not mark the end of the period of assisted *laissez-faire.* the period of assisted *laissez faire.* A major portion of American agriculture followed and still follows the pattern of independent managerial decision, with voluntary use of privately organized commerical and financial facilities, of cooperative facilities under its own control, or of government facilities in a few limited fields. It continues also to exercise this free choice of activities and use of facilities under the advisory educational guidance of a competent and comprehensive system of agricultural education and research.

The Farm Board episode did, however, represent a quite noval extension of the Federal Government into a central operative role rather than the decentralized advisory and facilitating role of service to the independent entrepreneur. What is most important, however, is the fact that the Farm Board experience itself became the most important factor in causing the Federal Government to take the next and more momentous step of linking control of market supplies with control of farm production. As the depression of the early 30's continued, the Federal Farm Board found its ability to sustain prices through storage and diversion operations quite inadequate in the face of the continuing weakness in consumer demand due to industrial depression. In the Board's third annual report (December, 1932) a section entitled "Surplus Control Methods" closed with the following comment:

"Experience with stabilization thus demonstrates that no measure for improving the price of farm products other than increasing the demand of consumers can be effective over a period of years unless it provides a more definite control of production than has been achieved so far. In a few limited and specialized lines, cooperative associations have made progress toward such control. For the great staple products, however, the problem still remains for future solution."

Within less than six months, Congress had enacted the first Agricultural Adjustment Act. In it the Federal Government boldly accepted the responsibility for setting production totals of stable farm products and administering a series of devices designed to cause the individual farmer to have his productive and marketing operations become a consistent part of this national managerial plan rather than to be guided merely by his personal preferences and judgment. During the 19 years since that time a series of Agricultural Adjustment Acts, Marketing Agreement Acts, Conservation and Domestic Allotment Acts have sought to perfect a system of governmental gauging of farm supplies to market demand at a desired price level or, to a limited extent, an desired income level.

The advent of the Agricultural Adjustment Administration, followed by the Production and Marketing Administration, represents an acceptance in a major segment of our economy of the logic of national economic and social planning. It is not authoritarian planning such as we see in Communist countries or even Socialist planning such as the Labor Government of Great Britain has been toying with. It is democratic planning, in which the machinery of representative government can be used to experiment with new forms of economic organization and, in the light of experience, to introduce perfecting amendments into that organization. It differs distinctively, however, from the traditional American system in that it moves from decentralized educational planning to centralized Planned Economy. Once a Congressional majority has enacted a law and participating farmers have by majority vote decided to pursue a common objective through, let us say, acreage allotments or marketing quotas, it becomes incumbent on the individual farmer to comply rather than being guided by his own managerial discretion. Furthermore the producing group is constrained by financial rewards and penalties to vote themselves into the control scheme.

The governmental control system for agriculture as it has evolved under a series of statutes beginning in 1929 has three general aspects: (1) It undertakes through loan, purchase, storage, and diversion operation to remove from the market, temporarily or permanently, supplies of farm commodities whose pressures hold prices below some predetermined level; (2) it stimulates productive effort by the naming of volume and price goals, or restricts production by naming lower goals, by withdrawing price supports, or by imposing acreage allotments to the end that prices shall be sustained; (3) it provides for payment of direct or indirect cash subsidies to raise the level of farm income when payment by the market is, by some official standard, insufficient. Such subsidies have gone sometimes to the producer direct and sometimes to him indirectly through processors, distributors, or consumers.

All these programs of centrally planned agricultural supply have had one goal in common with the older system of favorably-conditioned voluntarism. That is, they have been designed to improve the material position of the farmer. There are, however, marked differences in the way in which the objective has been defined and in the means that have been adopted for reaching it. Under the older system, the objective was to give farmers the best possible facilities for putting themselves in as favorable an income position as possible as parts of a self-sustained structure of prices, farm and nonfarm. Under the newer system, a price or income target is set under some kind of ethical standard and government undertakes either to adapt farm operations to the attainment of this figure or to make payments that bring about the stipulated income without adjusting the farmer's operations. As to method, the older system relied on the educational process and complete flexibility of "spot" judgment by the administrator of each firm. The new system starts with a legislatively set formula of over-all distributive relationships (amended from time to time), provides a legal apparatus of supply controls for reaching or approaching that relationship, and confers administrative discretion on a Federal executive agency for interpreting the formula and invoking the controls (subject to some referendum).

Now within the rich variety of human behavior many different patterns of economic organization are workable. But the change in basic logic which has here taken place is so fundamental that we need to face frankly the question whether we will follow the new lead or whether known economic (and political) principles raise warnings and counsel return to a less controlled or differently guided system.

Criteria and Evaluation

As economists we are professionally committed to one criterion—that of efficiency or of getting the maximum amount of material return from the use of given, i.e. limited resources. It is sometimes said that as social scientists we must subordinate this materialistic objective to another objective that lies deep in our mores and indeed in our human constitution. That is the insistent demand for freedom. We demand the most efficient economic order that we can have without sacrifice of the freedom of the individual. Since anarchy and efficient economic organization are inconsistent concepts this premise of "freedom" must obviously mean reasonable freedom. Or we may state our criterion as maximum efficiency of the productive process without undue loss of individual freedom.

Now I shall not attempt to argue a "rule of reason" for economic freedom. Nor do I admit that this is an intellectual booby trap and there is an inherent conflict between freedom and efficiency. It is the major premise of our intellectual world that freedom of self-expression is the fountain source of progress or rising efficiency. The minor premise is that the free individual must for his own interest as well as society's interest express an informed self through orderly and peaceful channels. This is the basis of our reliance on a system of universal education and our basic rejection of indoctrination and the centralization of decision-making.

With the criterion of economic freedom thus reconciled with or indeed absorbed into the criterion of economic efficiency we may proceed to the task of evaluation of recent trends in our American agriculture by asking the simple question: Do these developments toward greater government intervention in the operative processes of agriculture make for higher efficiency and surer progress? In the light of my previous description of how these controls modify the old system of proprietary management, we may put the issue in two parts. The first concerns the technological significance of the change. The second concerns the more subtle question of the price system under which our economic actions are organized and conducted.

The two questions may be stated thus:

(I) Will the aggregative approach to rational guidance of agriculture bring about better allocation of resources within agriculture and between agriculture and other uses, and promote sustained high general productive activity?

(II) Will the centrally-determined (or formula) allocation of the farmer's part of the national income stream produce a better-maintained and more technically correct expression of the great economic motive forces, to wit, the propensity to produce, the propensity to spend, and the propensity to save-invest?

Now you may feel that these two issues should have been stated as affirmative propositions in my introductory paragraphs rather than being posed as questions now and that I should then have proceeded to a powerful argument in support of an affirmative answer —or perhaps a negative one. Personally, however, I am neither a master nor an admirer of that sort of dialectic. I believe it is necessary to see in perspective the way in which a new element has been introduced in the evolution of our institutions and our group behavior if we are to judge whether the newer logic will supplant the old or will prove to be but a passing experiment.

In this context, then, I will give a quite categorical answer to the questions as I have set them up and my prognostication as to the future course of American farm policy and practice. I answer both questions in the negative. Merely stating the premises from which I arrive at these conclusions will, no doubt, start off a spirited discussion, and such discussion is the major value of these sessions. In spite of my conclusion that the macrocosmic factor in farm management which has been introduced through the last twenty-odd years of agricultural legislation constitutes retrogression rather than progress, my prognostication is that it will persist for the discernible future.

Turning to the first question, I need do no more than make explicit what was implicit in my earlier statement of the logic of central control or implemented planning. The nature of operative business and in a special sense the operative problems of farming are such that the individual manager is the best, indeed the only, adequately informed and competent, judge of what will constitute the best use of available resources in the actual situations to which the decisions and the subsequent operations apply. This is not to deny the very great usefulness of projections made or models built by competent technicians on the basis of such knowledge as is available long in advance of the time of local action. Such estimates and blueprints can take a broader view of national and world affairs and of contributory conditions than the farmer or any local agency can. Such policy analysis and hypothetical projection have been advanced to a high state of competence under our Agricultural Outlook procedures in this country and can go to continued and enlarging usefulness. But when these hypothetical projections become the basis for a central formula to which implementing devices are geared for a season or even a longer period in advance, they impede rather than promote a functionally correct allocation of resources.

The second issue is, of course, linked to the first since the promotion, restriction, or redirection of agricultural supply is not effected by ukase or by actual gov ernment operation but throug governmental intervention in th income process either throug prices or through subventions re lated to supply operations. Abra ham Lincoln argued the proposi tion that you cannot have a coun try half slave and half free. Ex perience indicates that the sam proposition applies to a price sys tem. When government inter venes to set certain prices, it dis turbs a net of cost, profit, capital forming, and spending relation ships which must then be com pensated or the economic proces is impeded. These changes are to complex and subtle to be com prehended in their entirety or re duced to any formula. The ver idea of a formula stultifies th need for universal and constan flexibility which is the essence o market guidance.

We could even concede the conceptual possibility of a formulation which would make all these relationships definite and consistent. But its rationale would be some ethical or aesthetic absolute As such, there is no assurance tha it would evoke the response o furnish the motivation to the various spenders, producers, and savers that would cause the economic process to go forward effectively. Even the scanty evidence that seeps around or unde the Iron Curtain gives abundan evidence of that fact. A marke system must by its fundamenta nature be pragmatic, not categorical.

But there is a third difficulty in the way of the formula approach to price-making or distributive intervention by government. It is the assumption of economic planners that the apparatus of formula-making shall be in the hands of technician whose competence is adequate to the task. In fact, however, when the issue of farm prices and incomes is withdrawn from the economic process or suffrage of the market and transferred to the political process or suffrage of the legislative and party system the technician is forced into a back seat. In the present situation in United States, in which farm-state Senators hold the balance of power in Congress and the rural vote holds the balance of power in Presidential elections, and with the philosophy of power struggles between interest groups so strongly established, it seems certain that the price and income adjustments written into laws or administrative orders will show little conformity to the findings of technicians even under an aggregative planning concept. The more reliance we place on this approach under these conditions, the greater its powers of mischief.

This proposition reveals the basis for my *obiter dictum* that, whatever the theoretical arguments against government intervention in supply determination as a means to price or income adjustment, we shall not soon reverse the steps we have taken in this direction during the last quarter century. The practical problem for the agricultural economist, therefore, is to make it as little harmful as possible.

With Ball, Burge

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Gordon Allen, Jr. and Harold K. Hutchinson have become affiliated with Ball, Burge & Kraus, Union Commerce Building, members of the New York and Midwest Stock Exchanges. Mr. Hutchinson was previously with Prescott & Co.

Joins Bache Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Ralph E. String is now with Bache & Co., National City East Sixth Building.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Oct. 5	103.7	*104.0	98.9	102.6
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 5	2,153,000	2,160,000	2,055,000	2,051,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Sept. 20	6,514,250	6,460,500	6,283,600	6,297,950
Crude runs to stills—daily average (bbls.)	Sept. 20	¶7,060,000	7,059,000	7,174,000	6,550,000
Gasoline output (bbls.)	Sept. 20	23,980,000	24,132,000	23,904,000	21,752,000
Kerosene output (bbls.)	Sept. 20	2,728,000	2,512,000	2,573,000	2,393,000
Distillate fuel oil output (bbls.)	Sept. 20	10,278,000	10,388,000	10,359,000	9,547,000
Residual fuel oil output (bbls.)	Sept. 20	8,525,000	8,523,000	9,161,000	8,358,000
Stocks at refineries, bulk terminals, in transit, in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Sept. 20	118,315,000	117,296,000	116,393,000	123,120,000
Kerosene (bbls.) at	Sept. 20	34,680,000	33,724,000	30,814,000	35,888,000
Distillate fuel oil (bbls.) at	Sept. 20	112,472,000	108,641,000	99,085,000	102,334,000
Residual fuel oil (bbls.) at	Sept. 20	53,484,000	53,274,000	52,104,000	48,724,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Sept. 20	873,559	881,218	834,120	863,690
Revenue freight received from connections (no. of cars)	Sept. 20	719,769	691,166	674,279	692,405
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Sept. 25	$317,149,000	$260,495,000	$353,898,000	$335,092,000
Private construction	Sept. 25	127,486,000	130,686,000	236,594,000	227,640,000
Public construction	Sept. 25	189,663,000	129,809,000	117,304,000	107,452,000
State and municipal	Sept. 25	54,880,000	86,344,000	92,259,000	66,288,000
Federal	Sept. 25	134,783,000	43,465,000	25,045,000	41,164,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Sept. 20	11,530,000	*11,850,000	11,085,000	10,995,000
Pennsylvania anthracite (tons)	Sept. 20	878,000	925,000	951,000	833,000
Beehive coke (tons)	Sept. 20	93,300	*86,300	90,700	136,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100	Sept. 20	112	114	100	111
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Sept. 27	7,624,747	7,724,664	7,646,253	7,101,794
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Sept. 25	156	145	132	154
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Sept. 23	4.376c	4.376c	4.376c	4.131c
Pig iron (per gross ton)	Sept. 23	$55.26	$55.26	$55.26	$52.69
Scrap steel (per gross ton)	Sept. 23	$42.00	$42.00	$42.00	$43.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Sept. 24	24.200c	24.200c	24.200c	24.200c
Export refinery at	Sept. 24	34.950c	34.900c	34.550c	27.425c
Straits tin (New York) at	Sept. 24	121.500c	121.500c	121.500c	103.000c
Lead (New York) at	Sept. 24	16.000c	16.000c	16.000c	17.000c
Lead (St. Louis) at	Sept. 24	15.800c	15.800c	15.800c	16.800c
Zinc (East St. Louis) at	Sept. 24	13.500c	14.500c	14.000c	17.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Sept. 30	95.91	96.42	97.28	98.08
Average corporate	Sept. 30	109.24	109.42	109.79	111.62
Aaa	Sept. 30	113.50	113.89	114.08	116.22
Aa	Sept. 30	111.62	111.81	112.00	115.24
A	Sept. 30	108.88	109.06	109.24	110.34
Baa	Sept. 30	103.64	103.47	103.97	105.00
Railroad Group	Sept. 30	106.21	106.39	106.74	108.16
Public Utilities Group	Sept. 30	109.24	109.24	109.42	111.25
Industrials Group	Sept. 30	112.75	112.75	112.93	115.24
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Sept. 30	2.78	2.75	2.69	2.63
Average corporate	Sept. 30	3.21	3.20	3.18	3.08
Aaa	Sept. 30	2.98	2.96	2.95	2.84
Aa	Sept. 30	3.08	3.07	3.06	2.89
A	Sept. 30	3.23	3.22	3.21	3.15
Baa	Sept. 30	3.53	3.54	3.51	3.45
Railroad Group	Sept. 30	3.38	3.37	3.35	3.27
Public Utilities Group	Sept. 30	3.21	3.21	3.20	3.10
Industrials Group	Sept. 30	3.02	3.02	3.01	2.89
MOODY'S COMMODITY INDEX	Sept. 30	427.6	426.5	431.2	460.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Sept. 20	215.865	241,601	187,012	155,900
Production (tons)	Sept. 20	234,715	233,756	220,691	214,310
Percentage of activity	Sept. 20	93	93	88	90
Unfilled orders (tons) at end of period	Sept. 20	467,535	488,931	394,190	475,903
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100	Sept. 26	109.21	109.48	109.36	116.2[illegible]
STOCK TRANSACTIONS FOR ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Sept. 13	27,361	18,965	23,130	35,640
Number of shares	Sept. 13	760,597	532,684	657,240	1,077,194
Dollar value	Sept. 13	$35,564,700	$24,707,669	$29,995,478	$46,148,9[illegible]
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Sept. 13	22,451	17,577	20,392	35,065
Customers' short sales	Sept. 13	252	106	92	252
Customers' other sales	Sept. 13	22,199	17,471	20,300	34,813
Number of shares—Total sales					
Customers' short sales	Sept. 13	637,791	470,226	567,002	1,009,067
Customers' other sales	Sept. 13	8,926	3,649	2,985	8,183
Dollar value	Sept. 13	628,865	466,577	564,017	1,000,884
Round-lot sales by dealers—	Sept. 13	$26,648,150	$19,269,163	$23,602,149	$40,475,280
Number of shares—Total sales	Sept. 13	213,390	142,870	178,010	295,190
Short sales	Sept. 13	------	------	------	------
Other sales	Sept. 13	213,390	142,870	178,010	295,190
Round-lot purchases by dealers—					
Number of shares	Sept. 13	305,890	201,730	250,050	372,730
TOTAL ROUND-LOT STOCK SALES ON THE NEW YORK EXCHANGE AND ROUND-LOT STOCK TRANSACTIONS FOR ACCOUNT OF MEMBERS (SHARES):					
Total Round-lot sales—					
Short sales	Sept. 6	139,470	124,940	186,640	263,930
Other sales	Sept. 6	4,410,560	4,578,730	5,542,270	7,568,740
Total sales	Sept. 6	4,550,030	4,703,670	5,728,910	7,832,670
ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS					
Transactions of specialists in stocks in which registered—					
Total purchases	Sept. 6	409,430	450,960	527,240	825,680
Short sales	Sept. 6	75,540	72,510	112,130	142,610
Other sales	Sept. 6	365,150	336,350	422,660	670,400
Total sales	Sept. 6	440,690	408,860	534,790	813,010
Other transactions initiated on the floor—					
Total purchases	Sept. 6	80,410	86,400	83,430	226,420
Short sales	Sept. 6	7,400	5,200	6,600	10,700
Other sales	Sept. 6	84,300	70,130	85,520	196,280
Total sales	Sept. 6	91,700	75,330	92,120	206,980
Other transactions initiated off the floor—					
Total purchases	Sept. 6	173,320	177,770	205,385	374,700
Short sales	Sept. 6	26,070	16,460	31,470	37,950
Other sales	Sept. 6	201,075	198,690	264,120	343,180
Total sales	Sept. 6	227,145	215,150	295,590	381,130
Total round-lot transactions for account of members—					
Total purchases	Sept. 6	663,160	715,130	816,055	1,426,800
Short sales	Sept. 6	109,010	94,170	150,200	191,260
Other sales	Sept. 6	650,525	605,170	772,300	1,209,860
Total sales	Sept. 6	759,535	699,340	922,500	1,401,120
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR—(1947-49 = 100):					
Commodity Group—					
All commodities	Sept. 23	111.1	111.3	112.0	------
Farm products	Sept. 23	105.3	*106.2	108.8	------
Processed foods	Sept. 23	109.8	110.0	110.9	------
Meats	Sept. 23	112.5	112.9	116.0	------
All commodities other than farm and foods	Sept. 23	112.7	112.7	112.9	------

*Revised figure. ¶Includes 611,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION — For month of July:			
Total gas (M therms)	3,147,038	3,270,552	3,083,800
Natural gas sales (M therms)	2,954,966	3,039,460	2,872,700
Manufactured gas sales (M therms)	73,137	89,257	104,400
Mixed gas sales (M therms)	118,935	141,835	106,700
BUSINESS INCORPORATIONS (NEW) IN THE UNITED STATES—DUN & BRADSTREET, INC.— Month of July	7,549	*7,819	6,428
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS — U. S. DEPARTMENT OF COMMERCE — Month of August (000's omitted)	$231,000	$542,000	$215,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK— As of August 30 (000's omitted)	$550,000	$539,000	$366,000
CONSUMER PURCHASES OF COMMODITIES — DUN & BRADSTREET, INC. (1935-1939=100)—Month of August	354.2	354.0	333.7
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES:			
Lint—Consumed month of August	744,383	------	753,621
In consuming establishments as of Aug. 30	848,819	------	1,050,468
In public storage as of Aug. 30	1,826,967	------	1,516,982
Linters—Consumed month of August	47,325	------	85,954
In consuming establishments as of Aug. 30	217,317	------	143,768
In public storage as of Aug. 30	198,406	------	34,806
Cotton spindles active as of Aug. 30	20,000,000	------	20,809,000
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (excl. of linters) prior to September 16	3,334,045	------	3,640,946
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of May:			
Cotton Seed—			
Received at mills (tons)	78,225	13,725	68,052
Crushed (tons)	117,439	152,799	71,661
Stocks (tons) July 31	136,898	176,112	66,281
Crude Oil—			
Stocks (pounds) July 31	41,077,000	56,602,000	20,121,000
Produced (pounds)	41,143,000	52,822,000	24,271,000
Shipped (pounds)	58,454,000	86,788,000	27,101,000
Refined Oil—			
Stocks (pounds) July 31	361,320,000	401,400,000	147,024,000
Produced (pounds)	54,023,000	79,578,000	24,446,000
Consumption (pounds)	90,150,000	113,260,000	63,465,000
Cake and Meal—			
Stocks (tons) July 31	45,104	58,946	71,645
Produced (tons)	55,746	69,838	32,880
Shipped (tons)	69,588	68,762	51,002
Hulls—			
Stocks (tons) July 31	24,615	30,676	20,157
Produced (tons)	27,196	35,883	16,963
Shipped (tons)	33,257	34,355	26,130
Linters (running bales)—			
Stocks July 31	107,226	148,066	38,205
Produced	35,565	46,053	21,308
Shipped	76,405	98,374	22,083
Hull Fiber (1,000-lb. bales)—			
Stocks July 31	a	a	136
Produced	a	a	a
Shipped	a	441	a
Motes Grabbots, etc. (1,000 pounds)—			
Stocks July 31	4,353	5,976	4,037
Produced	786	1,074	374
Shipped	2,409	1,901	857
COTTON SPINNING (DEPT. OF COMMERCE):			
Spinning spindles in place on June 28	23,183,000	23,204,000	23,183,000
Spinning spindles active on June 28	19,453,000	19,513,000	20,871,000
Active spindle hours, (000's omitted) June	8,102,000	7,532,000	9,241,000
Active spindle hrs. per spindle in place June	435.0	415.9	410.8
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1947-1949 AVERAGE = 100 — Month of August			
Sales (average monthly), unadjusted	78	70	84
Sales (average daily), unadjusted	76	69	80
Sales (average daily), seasonally adjusted	102	95	106
Stocks unadjusted	107	102	125
Stocks, seasonally adjusted	111	116	129
LIFE INSURANCE PURCHASES—INSTITUTE OF LIFE INSURANCE — Month of July (000's omitted):			
Ordinary	$1,571,000	$1,683,000	$1,467,000
Industrial	442,000	464,000	424,000
Group	306,000	442,000	244,000
Total	$2,319,000	$2,589,000	$2,135,000
NEW YORK STOCK EXCHANGE—			
As of August 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers net debt balances	$1,338,244	$1,387,103	$1,260,404
Credit extended to customers	48,188	66,759	41,079
Cash on hand and in banks in U. S.	342,050	335,336	370,710
Total of customers' free credit balances	674,753	691,949	816,311
Market value of listed shares	114,506,240	115,824,575	108,306,539
Market value of listed bonds	100,536,928	100,273,060	99, 271,015
Member borrowings on U. S. Govt. issues	103,577	307,021	61,697
Member borrowings on other collateral	959,518	1,156,400	643,941
REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION —Month of June (000's omitted):			
Savings and loan associations	$563,630	$557,269	$461,147
Insurance companies	107,882	114,293	139,784
Bank and trust companies	304,791	303,179	293,514
Mutual savings banks	96,141	90,375	90,919
Individuals	228,999	233,659	215,033
Miscellaneous lending institutions	211,291	212,713	221,865
Total	$1,512,734	$1,511,488	$1,422,262
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of August.			
Net sales	------	------	------
Net purchases	$1,877,150	$1,404,350	$4,651,800
UNITED STATES EXPORTS AND IMPORTS BUREAU OF CENSUS — Month of July (000's omitted):			
Exports	$1,012,900	$1,162,300	$1,130,000
Imports	836,000	860,200	894,449

a Not shown to avoid disclosure of individual operations.

Continued from page 10

The State of Trade and Industry

This would be the lowest three-month output since January-March, 1947, when 820,052 cars were made.

"Ward's" reported an industry labor shortage in casual semi-skilled and skilled categories. Cadillac, on 8½-hour work days, is preparing to hire and train women—for the first time since the war—for light jobs now being handled by men. A lack of help has caused Dodge Truck to abandon temporarily its program of a second shift for a nine-hour day. Studebaker plans a partial second shift instead of a full turn because of lack of workers.

On Monday of this week the United Mine Workers' policy makers ratified the new contract with northern soft coal producers. It was promptly signed by its authors—John L. Lewis and Harry M. Moses, President of the Bituminous Coal Operators Association. The above action does not bar the possibility of a strike, since the new contract has not been approved by the Wage Stabilization Board.

Business failures rose to 594 in August, a slight 2% above the low level of July. Casualties were the lightest for any August in the last four years and 12% less than a year ago. Dun's Failure Index, which is corrected for seasonal fluctuations, rose to the yearly rate of 29 failures out of every 10,000 businesses listed in the Dun & Bradstreet "Reference Book." The month before it stood at 27.

Liabilities involved in the month's failures totaled $16,000,000, the smallest in a year and a half. The sharpest decline in failures was among establishments with $100,000 or more in liabilities. Most of the increased failures occurred among businesses with liabilities of less than $5,000.

Casualties increased during August in all industry and trade groups except manufacturing in which failures dropped to the lowest level since November 1951. Most of the decreases in this group occurred in machinery and textiles. Among retailing establishments food and apparel stores suffered the fewest failures so far this year. Increases, however, were noted among eating and drinking places and drug stores, the latter experiencing the most casulaties in two years.

All of the August upturn centered in the New England and East North Central States. Casualties in the South Atlantic and East South Central were the lightest in six months while those in the Pacific States were the lowest in 18 months.

Steel Output Scheduled to Approach Last Week's New High Record

Many steel consumers are in the same position as a Broadway producer of a flop play the morning after the reviews come out, says "Steel," the weekly magazine of metalworking. They have tickets, but no takers. Tickets in this case are permits the government issues authorizing consumers to buy a specified amount of steel under the Controlled Materials Plan.

This ticket problem is only a temporary one resulting from the steelworkers' strike, states this trade paper. Mills are making good headway in filling the orders accumulated during the work stoppage. As mills get nearer current on deliveries, consumers show increasing interest in buying from the source that will result in the lowest delivered cost. This will do two things: Hurt the premium price sellers, and cause consumers to buy close to home.

Of all steel products none is in any tighter supply than bars, particularly those over an inch in cross section. Frequently it's said that the country needs more hot-rolled bar capacity. But do we? In 1945 when the American Iron & Steel Institute reported steel finishing capacities on a maximum annual potential basis, without relation to available supply of ingots or to actual performance, it showed that this country's hot-rolled bar capacity was 22.7 million net tons, continues "Steel." The consensus is that hot-rolled bar capacity is about the same as it was in 1945. Production in 1951 was only half that amount, 10.8 million tons. That there is capacity not now being utilized fully is borne out by reports that some bar mills are operating only a part of each week. If that is because they lack steel, they should get some relief in the expansion of the country's ingot capacity, concludes this trade magazine.

The American Iron and Steel Institute announced that the operating rate of steel companies having 93% of the steelmaking capacity for the entire industry will be at an average of 103.7% of capacity for the week beginning Sept. 29, 1952, equivalent to 2,153,000 tons of ingots and steel for castings. In the week starting Sept. 22, the rate was 104% (revised) of capacity and actual output totaled 2,160,000 tons, a new high record. A month ago output stood at 98.9% or 2,055,000 tons. One year ago the rate was estimated at 102.6% and production at 2,051,000 tons.

Electric Output Reacts to Lower Level in Latest Week

The amount of electric energy distributed by the electric light and power industry for the week ended Sept. 27, 1952, was estimated at 7,624,747,000 kwh., according to the Edison Electric Institute.

The current total was 99,917,000 kwh., below that of the preceding week when output amounted to 7,724,664,000 kwh. It was 522,953,000 kwh., or 7.4%, above the total output for the week ended Sept. 29, 1951, and 1,121,739,000 kwh. in excess of the output reported for the corresponding period two years ago.

Car Loadings Ease Slightly in Latest Week

Loadings of revenue freight for the week ended Sept. 20, 1952 totaled 873,559 cars, according to the Association of American Railroads, representing a decrease of 7,659 cars, or 0.9% below the preceding week, but ore loadings advanced again to a new all-time record.

The week's total represented an increase of 9,869 cars, or 1.1% above the corresponding week a year ago, and an increase of 3,030 cars, or 0.3% above the corresponding week in 1950.

United States Auto Output Adversely Affected by Plant Reconversions at Chrysler

Passenger car production in the United States last week aggregated 106,499 cars compared with 109,196 (revised) cars in the previous week, and 79,966 cars in the like week a year ago, according to "Ward's Automotive Reports."

Total output for the past week was made up of 106,499 cars and 29,521 trucks built in the United States against 109,196 cars and 29,194 trucks (revised) last week and 79,966 cars and 27,340 trucks in the comparable period a year ago.

Canadian plants turned 6,170 cars and 2,303 trucks against 6,404 cars and only 2,964 trucks last week, and 4,640 cars and 2,027 trucks in the like week of 1951.

Business Failures Rise Slightly

Commercial and industrial failures increased to 156 in the week ended Sept. 25 from 145 in the preceding week, Dun & Bradstreet, Inc., reports. This rise brought casualties slightly above the 1951 and 1950 totals of 154 and 148, but they remained considerably below of the prewar level of 264 which occurred in the comparable week of 1939.

Failures involving liabilities of $5,000 or more rose slightly in the previous week, but failed to reach the level of the similar week a year ago. Small casualties rose to 37 from 28 and exceeded last year's total of 33.

Trade and service accounted for the week's upturn in mortality. The only marked decline occurred in manufacturing where failures fell to 24 from 35. Casualties were heavier than last year in both retail and wholesale trade and commercial service. Retailing had the sharpest rise from 1951. Declines from last year's levels prevailed in manufacturing and construction.

Wholesale Food Price Index Declines of Previous Weeks Show Abatement

The wholesale food price index, compiled by Dun & Bradstreet, Inc., went moderately lower the past week following sharp declines registered in the two preceding weeks. The index fell four cents to stand at $6.45 on Sept. 23, the lowest in 13 weeks, or since June 24, when it stood at $6.39. The year's low was $6.31 on April 22, and the high was $6.70 on Aug. 26 and Sept. 2. The current figure at $6.45, compares with $6.78 on the corresponding date a year ago, or a drop of 4.9%.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Irregularly Changed In Latest Week

The Dun & Bradstreet daily wholesale commodity price index moved irregularly downward last week to close at 290.83 on Sept. 23. This was the lowest in three months and compared with 292.24 a week previous, and with 300.28 on the corresponding date a year ago.

Grain markets were unsettled the past week. Prices generally worked moderately lower although wheat showed relative firmness at times. Marketings of wheat continued to decline due to increasing quantities being tied up by CCC loans. Export business in wheat was fair with West Germany the principal buyer. Sales under the International Wheat Agreement for the current crop year to date were reported at 71,400,000 bushels, compared with 91,300,000 for the same period a year earlier. Corn registered the sharpest declines for the week as ideal weather prevailed for maturing the crop and shipments from the country continued in substantial quantities. Most of the crop was already said to be safe from frost. There was a fair amount of export business in corn, principally to Great Britain. Oats weakened on selling induced by the settlement of a threatened strike by grain handlers at Canadian lakehead ports.

Domestic flour prices moved higher last week, particularly the Spring wheat varieties. Although many of the mills offered protection against these advances, bakers and jobbers generally showed extreme caution in making new commitments. Shipping directions were slower and export flour business remained very dull. The cocoa market displayed a somewhat steadier undertone as the trade awaited the first estimates of the Accra and Bahia crops, with fears that the latter crop would be much smaller than expected. Warehouse stocks of cocoa were reported at 99,157 bags, down from 114,070 a week previous, and well below the 205,092 bags on the same date a year ago.

Strength in raw sugar prices was maintained despite the prospect of a tapering off in demand as the threat of a dock workers' strike became less acute.

Lard advanced steadily during the week, reflecting firmness in vegetable oils and improvement in live hog prices. Market receipts of hogs were down slightly from the previous week and the same week a year ago. Cattle and sheep prices continued their decline to new low ground.

After trending downward most of the week, spot cotton prices recovered in final sessions to close slightly higher than a week ago.

Firmness in late dealings was attributed to fairly active mill price-fixing and a Department of Agriculture report that pink bollworm damage to the crop this year has been severe. Trading in the 10 spot markets was active with sales totaling 346,900 bales last week, compared with 309,800 a week earlier, and 220,600 in the like week a year ago. There was increased activity in cotton textile markets last week, with prices edging higher under steady demand for spot and nearby delivery.

Trade Volume Lifted Slightly Under Impetus of Fall Buying

Shoppers in most parts of the nation increased their purchasing slightly in the period ended on Wednesday of last week as sliding temperatures called attention to the arrival of the Fall season. As during the last six months, shoppers spent slightly more than in the comparable week a year earlier.

The practice of extending shopping hours from one to two or more nights a week spread to many communities; in Detroit a group of merchants planned evening hours for six days a week.

Many stores stressed easy credit in an attempt to sustain volume. The rise in shoppers' interest, which was largely centered on apparel, spread increasingly last week to household goods.

The total dollar volume of retail trade in the nation the past week was estimated by Dun & Bradstreet, Inc., to be from 1 to 5% higher than that of a year ago. Regional estimates varied from the levels of a year earlier by the following percentages: New England —1 to +3; East —2 to +2; Midwwest +1 to +5; Northwest and Southwest +2 to +6; South +3 to +7, and Pacific Coast +1 to +5.

Food stores continued to chalk up larger receipts than in the comparable week in 1951. The most noticeable rises during the week were in the demand for pork and poultry. The prices of some fresh produce edged upward as supplies began to decline. Frozen foods and oleomargarine were increasingly popular.

Shoppers' interest in apparel continued to climb last week with the most pronounced gains occurring in women's and children's wear. Consumers continued to spend slightly more for apparel than they did a year before.

Household goods were more widely purchased than in either the prior week or the similar week a year ago. There was avid demand for television sets in Portland, Oregon, following the start of broadcasting by the first station in the area and the nation's first UHF station. In other parts the buying of television sets was well above the year-ago level. Increasingly popular were washers, vacuum cleaners, freezers, and incidental furniture.

The recent rise in order volume continued in many of the nation's wholesale markets the past week and remained slightly higher than that of a year earlier.

There was a steady flow of reorders for Fall merchandise as many retailers anticipated an acceleration in selling.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Sept. 20, 1952, rose 1% above the level of the preceding week. In the previous week no change (revised from —1%) was recorded from that of the similar week of 1951. For the four weeks ended Sept. 20, 1952, sales reflected an increase of 1%. For the period Jan. 1 to Sept. 20, 1952, department store sales registered a drop of 2% below the like period of the preceding year.

Retail trade volume in New York the past week dropped to an estimated 11% behind the comparable period of 1951, according to trade observers. It was the 24th consecutive week wherein the combined volume of the large stores failed to equal or exceed the 1951 weeks.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period ended Sept. 20, 1952, decreased 7% below the like period of last year. In the preceding week a decline of 6% was reported from that of similar week of 1951, while for the four weeks ended Sept. 20, 1952, a decrease of 7% was registered below the level of a year ago. For the period Jan. 1 to Sept. 20, 1952, volume declined 10% under the like period of the preceding year.

Oliver Realty Co. Formed

JOLIET, Ill.—The Oliver Realty Company is engaging in a securities business from offices in the Rialto Square Building. Partners are J. B. Anderson, Sr., J. B. Anderson, Jr., and Donald E. Harper.

K. H. Raef Opens

SPOKANE, Wash.—Killian H. Raef is conducting his own investment business from offices in the Empire State Building. He was formerly a partner in Preston & Raef.

I. D. Pilla Opens

I. D. Pilla is engaging in a securities business from offices at 1805 Williamsbridge Road, New York City.

Continued from page 16

Fall Outlook for Industry And Trade Promising

rectors have in the future outlook for a high level of business activity.

Last quarter corporations offered more new securities than they did for any previous quarter since the boom of 1929. Most of the money received will go toward expansion, with about 20% added to working capital. Of the money which is being spent for expansion, 41% will be used by manufacturing plants. Electric, gas, and water companies will use 31% of it and railroads 7%. Other forms of transportation account for 6% and commercial companies are using the remaining 15%.

Financial Factors Moderately Optimistic

Changing prices of securities are another significant indicator for ascertaining trends in business. For short periods of time they may be influenced by fluctuations in the psychology of investors quite apart from basic conditions in industry and trade. Yet these prices often move considerably in advance of business trends. Security prices continued the rise from the low point earlier this year and during the first part of August surpassed the high of last year. At that level they were the highest in 22 years. During the last two weeks there have been some reactions from the high point, but declines so far have been relatively moderate although the total amount of dollar value of all securities has been at times considerably reduced.

Some reaction after a long period of rising prices is normal and need not indicate a change in the general trend. Securities have been rising without a major interruption since 1949 and after an advance which lasted more than three years and raised average prices close to 80% some slowing down and possibly moderate declines can be expected. So far indications do not point to a major reversal in trend even though the rise has extended longer than usual.

Caution is suggested, however, by the fact that the rise in prices of securities during most of this year has taken place while corporation profits were declining. Average earnings of a large group of leading corporations have declined 13% below those of last year and in many fields such as textiles, building equipment, beverages and retail trade the declines have been even greater. Many corporations have been caught in the squeeze between higher costs and buyer resistance to advances in selling prices. As compared with normal relationships to earnings, however, security prices are still low. The uncertainty as to the future continues to be whether the normal relationship will be restored by higher prices or by further reductions in corporation earnings.

Much of the stimulus to rising security prices has been the increase in dividends which have been paid out of profits of previous years. Also larger percentages of current profits are being distributed to stockholders. This policy is possibly another indication that corporation executives have decided that not so much money will be needed for improvements and capital expenditures as in recent years. Total dividend payments that have been publicly reported, according to the United States Department of Commerce, have so far this year been 4% larger than during the corresponding period of last year. Most of the increases have been in fields other than manufacturing. Last month dividends of manufacturing corporations were 4% lower than a year ago. Other variations have been significant. Dividends are down in the food, beverage, and tobacco fields of industry. They are lower in corporations producing textiles and leather. They are also lower in some of the transportation equipment industries. In most other lines they have been increasing. Gains have been greatest in oil refining. Corporations in the automobile industry have also increased dividends even though the output of automobiles and trucks has been drastically reduced. Many of these corporations have maintained high earnings through their work on military equipment and supplies.

Present securities prices average about 12 times current earnings per share. This figure is lower than normal, although it is higher than it was a year ago. Average yield per share is around 6%, although many stocks pay larger dividends, some as high as 10%. Yields of 7 and 8% are fairly common, but they are offset by an increasing number of dividend paying stocks which bring in a return of less than 5%.

The spread between yields of stocks and those on bonds has been narrowing because of the combination of declining bond prices which have accompanied the higher interest rates and the reduced yields of stocks because of higher security prices. The spread is now less than three percentage points and lower than it has been in many years. The ratio in favor of stocks as compared with bonds is becoming less but it is still considerably higher than it has been at the high peaks in previous markets. It does not yet point to a sustained reversal in the trend of security prices but it should be watched with special interest during the next few months.

Another indication of current conditions is the marked slowing down in the rise in bank loans to business. Throughout most of 1950 and 1951 bank loans were rapidly increasing. In the last six months they have changed very little although they are still 7% higher than they were a year ago. Commercial, industrial, and agricultural loans by member banks of the Federal Reserve System in leading cities are close to 5% below the peak which was reached last December. Part of the falling off has been seasonal and some further increases are expected during the remainder of this year but present trends do not indicate the peak of last year will be exceeded. Changes in bank credit suggest future stability rather than a long-term rise in the level of general business activity.

Another change in financial factors is taking place gradually and may provide a further clue as to possible future trends. Interest rates are steadily rising even though changes are gradual. A recent offering of securities by the United States Treasury consisting of 91-day bills had an average yield of 1.9%. This rate was the highest since March, 1933 and even with this high rate the issue was undersubscribed by 15%. Government 2½% bonds have been selling below 97, which is close to the low point of the year. Interest charged by banks on almost every type of loan is higher than a year ago and in many cases the highest in many years. Rising interest rates have in the past been a predominant characteristic of the latter phases of a rise in the business cycle. They do not, however, affect business trends significantly until after a considerable period of time has elapsed. They are indicators of long-term trends rather than of changes in business in the near future.

Commodity Price Changes Varied

Commodity price changes constitute the thermometer which measures quite accurately many aspects of the current situation in the supply of goods and the demand for them. While the general trend in wholesale prices has been stable or slightly downward during most of the last year, some significant rises have recently taken place. Retail prices and the cost of living are higher than they were a year ago although the changes during the last 12 months have been much less than in previous years. Recent changes have been greatest in the prices of farm products due to the drought which reduced production in several sections of the country. Not all these price rises have held, however, as weather conditions became more favorable and later reports have indicated that the damage was less than was generally expected. The rise has, however, pushed food prices in the wholesale markets to the highest level of the year, although they are still lower than a year ago.

Even though the current trend in commodity prices is slightly upward, no significant signs point to any marked rise unless there should be a sustained wave of scare buying such as took place two years ago. Supplies of most goods are large in spite of interruptions in production. stocks of goods have declined somewhat, especially in factories, but they are as high as last year and far above those in previous years. There is no evidence that consumers fear shortages and people generally have confidence in the productive capacity of industry. Consumer buying attitudes are also constructive and there are many more signs of resistance to high prices than of buying in anticipation of higher prices. Prospects that agricultural production this year will be the third largest ever achieved also tends to hold down price rises.

Trends in Leading Industries

Among the major industries the most rapid rise has been taking place in the production of steel. Operations have increased to very close to capacity and weekly output has been restored to a total of over 2,000,000 tons. Because of the long interruption in operations supply will not catch up with demand as soon as was planned, but production has already become large enough to sustain factory output at peak levels during the coming months. Many manufacturers still have stocks of steel on hand to continue operations while they are replenishing their inventories from current production.

The automobile industry has been most severely handicapped by the shortage of steel. Weekly output has declined to the lowest level in many years, but production is expected to pick up rapidly during the last quarter of the year. Output for the entire year will probably be the lowest since 1947 but not far below demand. Employment in the industry is being suported by the shift to the production of military supplies and equipment.

Production of electricity has been rising steadily and weekly output continues at about 6% higher than a year ago. The current trend is upward at a slightly more rapid rate than usual, and the prospects are that a new peak will be established before the end of the year. Current output is about 4% below the peak which was reached last December. Use of electricity is now more than double that of the best prewar year and further increases are expected at an even more rapid pace than the normal growth.

Demand is also strong in other divisions of the public utility field, especially in natural gas where expansion continues steadily. Large amounts of new capital are being raised to increase capacity for the production of both electricity and gas. Expenditures of this kind are significant factors in maintaining good business conditions.

Improvements are taking place in some of the industries which have been lagging for some time. Among these is the textile, all branches of which have risen from the low point of a few months ago, even though they have not reached the levels of last year. Daily average consumption of cotton has been running about 15% lower but the spread between this year and last is becoming narrower. Cotton textile markets have become more active and new orders have been increasing. Buying for fall and winter markets has been more vigorous. Prospects for the cotton crop this year have recently improved although the drought during the summer has reduced output. Indications are that the crop will be about 3% lower than last year but considerably above average.

Wool mill activity has been rising quite steadily and consumption of wool by the mills has risen to almost the same level as it was a year ago. Civilian demand has risen to supplement the large buying for use by the military forces. The use of wool in comparison with other fibers has become somewhat more favorable, although for several years the output of man-made fibers has been making rapid strides. As compared with the prewar years cotton consumption has increased about 35% that of wool 20%, and that of rayon 300%. The use of rayon has recently been lagging behind the very high level of a year ago.

Production of coal has been holding quite steady at around 10,000,000 tons weekly, although there have been interruptions and work stoppages which have kept output from rising faster. So far this year output of coal has been running about 10% lower than that of the corresponding period last year. Even that reduced output has been greater than demand and stocks of coal on hand are much larger than normal. Estimates are these stocks are equivalent to over 80 days' consumption. Many factors account for the reduced demand. Smaller amounts are being shipped abroad. Use has declined through the shifts to other forms of fuel that are considered more convenient. Especially significant has been the rapid rise in costs, which have led to higher prices. Coal has been priced out of a number of former markets. An indication of the shift to other forms of fuel is indicated by the steady increase in the production of petroleum.

Production of most kinds of consumer durable goods has been increasing although output in most lines is still lower than it was a year ago. Shortages of materials and restrictions on production account for some of the decline. Many of the companies in this field have shifted to the production of military supplies and equipment. Consumer demand has been lagging as a normal reaction from the very large buying of these products during the periods of extraordinarily heavy consumer spending two years ago. Production last year was exceptionally large as companies built up inventories before shifting to military production.

Trends in the production of consumer non-durable goods are even more favorable and in many lines output is higher than it was last year. New orders in this field have also been rising and unfilled orders are larger than ever before. Production of shoes has risen 13%. Paper output and the use of newsprint has risen steadily. Rising consumer incomes are being spent in larger amounts for goods that are used in current consumption, and prospects are improving most for businesses in these fields.

Anheuser-Busch Debs. Publicly Offered by Dillon, Read Group

The offering yesterday (Oct. 1) of $35,000,000 Anheuser-Busch, Inc. debentures marks the first public financing for one of America's largest and oldest brewing companies which is celebrating its 100th anniversary this year. The 3⅜% debentures due 1977 are being offered by an investment banking group headed by Dillon, Read & Co. Inc., at a price of 100½%, plus accrued interest.

Of the proceeds, the company will apply $15,000,000 to pay off its outstanding bank loan and the balance will be added to the company's general funds. The company is currently engaged in an expansion program designed to increase its present shipping capacity by 18%. In February, 1953, the company plans to start construction of a new $15,000,000 brewery at Los Angeles, Calif., with a shipping capacity of 920,000 barrels, to be completed by mid-1954. The Newark, N. J. brewery completed in 1951 with a capacity of 1,380,000 barrels is to be enlarged at a cost of $5,000,000 to add 460,000 barrels of capacity by next summer. The company is also considering the erection of a yeast plant on the West Coast at an estimated cost of $3,000,000.

In 1951 Anheuser-Busch sold 5,479,314 barrels of premium-priced beer under the trade names of Budweiser and Michelob. Of this total, about 19% was draught beer and 81% packaged beer. The company's beer is marketed on a nation-wide basis through some 900 wholesalers, sixteen branches and two subsidiaries.

The company's other products, which account for 15% of sales, are bakers' yeast and bakery products, pharmaceutical yeasts, corn products and refrigerated cabinets. The company believes it is the second largest producer of bakers' yeast and the largest producer of pharmaceutical yeast in the United States.

The debentures are entitled to a sinking fund, commencing Oct. 1, 1954, sufficient to retire $754,000 principal amount semi-annually and approximately 98% of the issue prior to maturity. The debentures are callable at company option at prices ranging from 103% to 100% after Sept. 30, 1967. They are redeemable for the sinking fund at prices scaled from 100½ to 100%. The company also has the option of redeeming additional debentures up to the full amount required for the sinking fund on any redemption date.

Two Join Prescott Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Ralph M. Callaghan and Jack P. Sharpe have become associated with Prescott & Co., National City Bank Building, members of the New York and Midwest Stock Exchanges. Mr. Callaghan was previously connected with Morrow & Co.

Joins Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

SARDINIA, Ohio — Florence J. Rockey is with Waddell & Reed, Inc. of Kansas City.

Securities Now in Registration

★ **INDICATES ADDITIONS SINCE PREVIOUS ISSUE**
● **ITEMS REVISED**

★ Aberdeen Fund, New York
Sept. 26 filed 500,000 shares of capital stock. **Price**—At market. **Proceeds**—For investment. **Business**—A mutual common stock trust fund. **Underwriter** — Investment Management Corp., New York.

Admiral Corp., Chicago, Ill.
June 2 filed 41,669 shares of capital stock (par $1) being offered in exchange for common stock of Canadian Admiral Corp., Ltd., at rate of one share of Admiral stock for each two shares of Canadian Admiral stock held. This exchange offer will expire on Oct. 17. **Dealer-Manager**—Dempsey & Co., Chicago, Ill. Statement effective June 19.

★ Aeroquip Corp., Jackson, Mich. (10/15)
Sept. 24 filed 195,000 shares of common stock (par $1), of which 150,000 shares are to be sold by company and 45,000 shares by eight selling stockholders. **Proceeds**—To repay bank loans. **Underwriters**—White, Weld & Co., New York, and Watling, Lerchen & Co., Detroit, Mich.

● Allpark Finance Co., Inc. (10/6-10)
Aug. 28 filed $500,000 of 6% sinking fund convertible 10-year debenture notes due June 30, 1962; 29,180 shares of 60-cent cumulative preferred stock (no par); and 22,347 shares of common stock (no par). **Price**—For debentures, at face amount; for preferred stock, $10 per share; and for common stock, $5 per share. **Proceeds**—For additional working capital. **Underwriter** — For debentures, C. K. Pistell & Co., Inc., New York; and for preferred and common stock, none, with sales to be made through Marion R. Allen, President. **Office**—Houston, Texas.

American President Lines, Ltd. (Calif.) (10/28)
Sept. 4 filed 100,145 shares of class A stock (no par) and 2,100,000 shares of class B stock (par $1). **Proceeds**—One half to go to the Treasurer of the United States and the other half to the Dollar interests. **Underwriters**—To be determined by competitive bidding. **Bids**—To be received by The Riggs National Bank of Washington, D. C., as trustee under a "Settlement Agreement" between the United States of America and the Dollar interests, up to 11 a.m. (EST) on Oct. 28. If no bid is received which at least equals the minimum price of $14,000,000, the trustee will surrender and deliver the certificates for such division equally between the parties and cause new certificates for such shares of stock to be issued.

● Associated Telephone Co., Ltd. (Calif.) (10/7)
Sept. 5 filed $10,000,000 of first mortgage bonds, series H, due Oct. 1, 1982. **Purpose**—To repay bank loans and for property additions and improvements. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Paine, Webber, Jackson & Curtis, and Stone & Webster Securities Corp. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly). **Bids**—To be received up to noon (EST) on Oct. 7.

● Big Horn-Powder River Corp., Denver, Colo.
Sept. 15 (letter of notification) 750,000 shares of common stock being offered for subscription by stockholders of record Sept. 15 at rate of one new share for each six shares held (with an oversubscription privilege); rights to expire Oct. 3. **Price**—At par (10 cents per share). **Proceeds**—For drilling expenses and equipment. **Office**—603 Railway Exchange Bldg., Denver 2, Colo. **Underwriter**—None.

Bingham-Herbrand Corp.
Sept. 4 (letter of notification) 5,000 shares of common stock (par $1). **Price**—At market (approximately $14 per share). **Proceeds**—To E. E. Parsons, Jr., a director. **Underwriter**—Parsons & Co., Inc., Cleveland, O.

★ Blackwood & Nichols Co., Oklahoma City, and The Oil and Gas Co., Madison, N. J.
Sept. 26 filed $2,500,000 "contributions in oil property interests (1953 fund)." **Price**—No contributions will be accepted in an amount less than $25,000. **Proceeds**—For acquisition, exploration and operation of oil property. **Underwriter**—None. Solicitations are to be made by Oil and Gas Co.

★ Brick Discount Corp., Buffalo, N. Y.
Sept. 25 (letter of notification) 2,000 shares of 6% cumulative preferred stock (par $100) and 1,000 shares of common stock (no par). **Price**—$100 per share for preferred and $50 for common. Proceeds — To purchase chattel mortgages and conditional sales contracts and for working capital. **Office**—601 Genesee Building, Buffalo 2, N. Y. **Underwriter**—None.

NEW ISSUE CALENDAR

October 3, 1952
Hawaiian Electric Co., Ltd. .... **Common**
(Offering to stockholders—No underwriting)

October 6, 1952
Allpark Finance Co., Inc. .... **Debentures**
(C. K. Pistell & Co., Inc.)
Southeastern Fund .... **Debentures & Common**
(Barrett Herrick & Co., Inc.)

October 7, 1952
Associated Telephone Co., Ltd. .... **Bonds**
(Bids noon EST)
California Electric Power Co. .... **Common**
(Bids 11:30 a.m. EST)
Harnischfeger Corp. .... **Common**
(First Boston Corp.)
United Gas Corp. .... **Debentures**
(Bids 11:30 a.m. EST)

October 8, 1952
California Oregon Power Co. .... **Common**
(Blyth & Co., Inc. and First Boston Corp.)
Cincinnati Enquirer, Inc. .... **Debentures**
(Halsey, Stuart & Co. Inc.)
St. Louis, Brownsville & Mexico Ry. .... **Eq. Tr. Ctfs.**
(Bids noon CST)
Sierra Pacific Power Co. .... **Common**
(Stone & Webster Securities Corp. and Dean Witter & Co.)
Southern New England Telephone Co. .... **Common**
(Offered to stockholders—No underwriting)
White's Auto Stores, Inc. .... **Preferred**
(Merrill Lynch, Pierce, Fenner & Beane)

October 9, 1952
Consolidated Freightways, Inc. .... **Common**
(Blyth & Co., Inc.)
International Bank for Reconstruction and Development ("World Bank") .... **Debentures**
(The First Boston Corp. and Morgan Stanley & Co.)

October 10, 1952
Seymour Water Co. .... **Preferred**
(Bids 11 a.m. CST)

October 14, 1952
California Oregon Power Co. .... **Bonds**
(Bids to be invited)
Gulf Sulphur Corp. .... **Common**
(Peter Morgan & Co.)
Utah Power & Light Co. .... **Bonds**
(Bids noon EST)

October 15, 1952
Aeroquip Corp. .... **Common**
(White, Weld & Co. and Watling, Lerchen & Co.)

October 16, 1952
Central of Georgia Ry. .... **Equip. Trust Ctfs.**
(Bids noon EST)

October 20, 1952
Carolina Power & Light Co. .... **Bonds**
(Bids noon EST)

October 21, 1952
Hecht Co. .... **Common**
(Goldman, Sachs & Co.)
Virginia Electric & Power Co. .... **Bonds**
(Bids 11 a.m. EST)

October 28, 1952
American President Lines, Ltd. .... **Class A & B**
(Bids 11 a.m. EST)

November 3, 1952
Dow Chemical Co. .... **Common**
(Offering to stockholders—No underwriting)

November 15, 1952
Detroit & Toledo Shore Line RR. .... **Bonds**
(Bids to be invited)

November 18, 1952
Long Island Lighting Co. .... **Bonds**
(Bids to be invited)
Pacific Telephone & Telegraph Co. .... **Debentures**
(Bids 8:30 a.m. PST)

December 15, 1952
New Orleans Public Service Inc. .... **Bonds**
(Bids to be invited)

★ Bristol Oils Ltd., Toronto, Canada
Sept. 25 filed 1,000,000 shares of common stock (par $1). **Price**—Approximately 64.48 cents per share. **Proceeds**—To acquire leases and for corporate purposes. **Underwriter**—None.

★ Buckskin Copper Corp., Las Vegas, Nev.
Sept. 25 (letter of notification) 50,000 shares of preferred stock (par $5) and 150,000 shares of common stock (par 10 cents). **Price**—At par. **Proceeds**—To purchase machinery and land. **Office**—1020½ So. Main Street, Las Vegas, Nev. **Underwriter**—None.

★ Bureau of National Affairs, Inc., Washington, D. C.
Sept. 22 (letter of notification) 1,500 shares of common stock (no par), to be offered for subscription by certain employees. **Price**—$30 per share. **Proceeds**—For working capital. **Office**—1231 24th Street, N. W., Washington, D. C. **Underwriter**—None.

Calaveras Cement Co., San Francisco, Calif.
Aug. 15 (letter of notification) 4,100 shares of common stock (par $1). **Price**—At market (estimated at $13 per share). **Proceeds**—To Henry C. Maginn, Executive Vice-President. **Underwriter**—Walston, Hoffman & Goodwin, San Francisco, Calif.

California Electric Power Co. (10/7)
Sept. 8 filed 350,000 shares of common stock (par $1). **Proceeds** — To retire two convertible preference stock issues (5.50% and 5.60%) or for the discharge of bank loans, or both. **Underwriters**—To be determined by competitive bidding. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and William R. Staats & Co. (jointly); Blyth & Co. Inc.; Lehman Brothers. **Bids**—To be received up to 11:30 a.m. (EST) on Oct. 7 at Bankers Trust Co., New York.

California Oregon Power Co. (10/8)
Sept. 18 filed 250,000 shares of common stock (par $20). **Price**—To be supplied by amendment. **Proceeds**—For repayment of bank loans and for new construction. **Underwriters** — Blyth & Co., Inc., and The First Boston Corp., both of New York.

California Oregon Power Co. (10/14)
Sept. 18 filed $7,000,000 first mortgage bonds due Oct. 1, 1982. **Proceeds**—To repay bank loans. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Smith, Barney & Co., Union Securities Corp. and Carl M. Loeb, Rhoades & Co. (jointly); Blyth & Co., Inc., The First Boston Corp. and Salomon Bros. & Hutzler (jointly); Shields & Co. and Blair, Rollins & Co. Inc. (jointly); White, Weld & Co. **Bids** — Tentatively scheduled to be received on Oct. 14.

● Carolina Power & Light Co. (10/20)
Sept. 17 filed $20,000,000 of first mortgage bonds due 1982. **Proceeds**—For new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; W. C. Langley & Co. and The First Boston Corp. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Equitable Securities Corp.; Smith, Barney & Co. and Blyth & Co., Inc. (jointly). **Bids**—To be received up on noon (EST) on Oct. 20 at Room 2033, No. 2 Rector St., New York 6, N. Y.

● Cincinnati Enquirer, Inc. (10/8)
July 25 filed $3,500,000 of 15-year sinking fund debentures due Aug. 1, 1967 and $2,500,000 of 10-year convertible junior debentures due Aug. 1, 1962. **Price**—To be supplied by amendment. **Proceeds**—To pay notes issued to the Portsmouth Steel Corp. **Underwriter** — Halsey, Stuart & Co. Inc., Chicago & New York.

★ Congressional Finance Corp., Hyattsville, Md.
Sept. 19 (letter of notification) 5,000 shares of capital stock (no par). **Price** — $5 per share. **Proceeds** — For working capital. **Office**—5603 Chillum Heights, Hyattsville, Md. **Underwriter**—None.

★ Consumers Cooperative Association, Kansas City, Missouri
Sept. 24 filed $3,000,000 of 10-year 4½% subordinated certificates of indebtedness, $6,000,000 of 20-year 5½% subordinated certificates of indebtedness; and $1,000,000 of 25-year 5½% subordinated certificates of indebtedness, to be offered for sale to members and others. **Price**—At face amount. **Proceeds**—To build plant. **Business**—Wholesale purchasing association. **Underwriter**—None.

★ Counselors Investment Fund, Inc., Los Angeles, California
Sept. 29 filed 500,000 shares of capital stock. **Price**—At market. **Proceeds** — For investment. **Underwriter** — Dempsey-Tegeler & Co., St. Louis, Mo.

Crown Drug Co., Kansas City, Mo.
Sept. 18 (letter of notification) $250,000 of 4½% convertible debenture notes due Oct. 1, 1962. **Price**—At par (in denominations of $60, $100, $500 and $1,000 each). **Proceeds**—For working capital. **Office**—2110 Central St., Kansas City, Mo. **Underwriter**—None.

Deerpark Packing Co., Port Jervis, N. Y.
March 21 (letter of notification) 235,000 shares of common stock (par 10 cents). **Price—$1.25** per share. **Proceeds**—To repay RFC loan of $41,050 and for working capital. **Offering**—Expected before Oct. 15.

Devil Peak Uranium, Ltd. (Nev.)
April 7 (letter of notification) 600,000 shares of common stock (par one cent). **Price**—50 cents per share. **Proceeds** — For rehabilitation and development program. **Office** — Suite 839, 60 East 42nd St., New York 17, N. Y. **Underwriter**—Gardner & Co., New York.

● Dole (James) Engineering Co.
Sept. 19 (letter of notification) 100,000 shares of convertible 5% preferred stock to be offered for subscription by stockholders of record Oct. 6 at rate of one share for each 10 common shares held; rights to expire on Oct. 31. **Price**—At par ($2 per share). **Proceeds**—For general corporate purposes. **Office**—58 Sutter St., San Francisco 4, Calif. **Underwriter**—None.

● Dow Chemical Co., Midland, Mich. (11/3)
Sept 23 filed 625,000 shares of common stock (par $5) to be offered as follows: About 420,000 shares for subscription by common stockholders of record Oct. 21, 1952 at rate of one new share for each 50 shares held, and about 205,000 shares for subscription by employees of the company and its subsidiaries and affiliated companies. The offering will open Nov. 3 and close on Nov. 26. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes. **Underwriter**—None.

★ Duquesne Light Co., Pittsburgh, Pa.
Sept. 30 filed 250,000 shares of common stock (par $10), of which 80,000 shares will be offered by company and 170,000 shares by the Philadelphia Co. **Proceeds**—For new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp.; Lehman Brothers; Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Smith, Barney & Co.

Farm & Home Loan & Discount Co., Phoenix, Ariz.
July 7 filed 1,613,168 shares of class A common stock (par 25 cents) and 2,744,034 shares of class B common stock (par 35 cents), the class A stock to be sold only to policyholders of The Farm & Home Insurance Co. **Price**—At par. **Proceeds**—To increase capital. **Underwriters**—John J. Rhodes and James E. McNelis, officers and directors of the two companies.

★ Farmers Underwriters Association, Los Angeles, California
Sept. 25 (letter of notification) 2,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To John C. Tyler, the selling stockholder. **Office**—4680 Wilshire Boulevard, Los Angeles, Calif. **Underwriter**—Lester, Ryons & Co., Los Angeles, Calif.

Floseal Corp., Seattle, Wash.
Sept. 12 (letter of notification) 24,950 shares of capital stock (par $1). **Price** — $12 per share. **Proceeds** — For general corporate purposes. **Address**—c/o The Corporation Trust Co., 1004 Second Ave., Seattle 4, Wash. **Underwriter**—None.

Food Fair Stores, Inc., Philadelphia, Pa.
Sept. 9 filed 100,000 shares of common stock (par $1) to be offered to certain employees pursuant to the terms of stock purchase plan. **Price**—$3 below the average market price for the month in which payment is completed. **Proceeds**—For general funds. **Underwriter**—None.

Foote Mineral Co., Philadelphia, Pa.
Sept. 19 filed $1,973,000 of convertible subordinate debentures due Oct. 1, 1967, to be offered for subscription by common stockholders at rate of $500 of debentures for each 66 shares of common stock. **Price**—100% of principal amount. **Proceeds**—From sale of debentures, together with funds from bank loans, for construction of new lithium chemical plant, to enlarge ore mining and concentrating plant, for retirement of $200,000 term note held by insurance company, and for additional working capital. **Underwriter**—Estabrook & Co., Boston, Mass.

Front Range Mines, Inc., Denver, Colo.
Sept. 8 (letter of notification) 125,000 shares of common stock (par $1). **Price**—At market (approximately 37½ cents per share). **Proceeds**—To Irene F. Marple, a director. **Underwriter**—Stanley Pelz & Co., Inc., New York.

General Bronze Corp.
Aug. 28 filed 43,576 shares of common stock (par $5), of which 28,576 shares are being offered for subscription by common stockholders at rate of one share for each 10 shares held Sept. 18 (rights to expire on Oct. 6); 10,000 shares are offered to the trustees of the company's Employees' Profit Sharing Plan and Trust; and 5,000 shares to directors and officers of the company and its subsidiaries. **Price**—To stockholders $14 per share. **Proceeds**—For working capital and to finance inventories and receivables. **Underwriters**—For 28,576 shares, Reynolds & Co., New York.

★ General Laboratory Associates, Inc. (N. Y.)
Sept. 30 (letter of notification) 7,435 shares of common stock. **Price**—At par ($20 per share) to be offered for subscription by common stockholders of record Oct. 15 at rate of one share for each two shares held; rights to expire Oct. 30. **Proceeds**—For expansion of facilities and to reduce bank loans. **Office**—17 East Railroad Street, Norwich, N. Y. **Underwriter**—None.

Glen Alden Coal Co.
Aug. 26 (letter of notification) 13,232 shares of capital stock (no par) being offered in exchange share-for-share for common stock of Burns Bros. As an alternative holders of latter shares may receive cash at rate of $8.63 per Glen Alden share to which they would become entitled. Offer will expire on Oct. 3. Members of NASD will receive 25 cents for each share of Burns Bros. stock deposited under plan. **Underwriter**—None. Georgeson & Co., New York, will assist the company in the exchange.

★ Golden Ensign Mining Co.
Sept. 22 (letter of notification) 250,000 shares of common stock. **Price**—At par (10 cents per share). **Proceeds**—To sink shaft for ore. **Office**—1350 So. 7 East, Salt Lake City, Utah. **Underwriter**—None.

● Gulf Sulphur Corp. (10/14-15)
Sept. 8 filed 225,000 shares of common stock (par 10 cents). **Price**—$3 per share. **Proceeds**—To pay costs of drilling 25 test wells and for other corporate purposes. **Underwriter**—Peter Morgan & Co., New York.

Gyrodyne Co. of America, Inc.
Sept. 10 (letter of notification) 2,000 shares of class A common stock (par $1). **Price**—$5 per share. **Proceeds**—For working capital. **Office**—Flowerfield, St. James, L. I., N. Y. **Underwriter**—None. Of the amount offered, $5,000 may be used as payment for services and for materials supplied.
Sept. 16 (letter of notification) 12,300 shares of class A common stock (par $1). **Price**—$5 per share. **Proceeds**—For working capital. **Underwriter**—None, sales to be made through certain officers and directors.
Sept 18 (letter of notification) 16,972 shares of Class A common stock (par $1). **Price**—$5 per share. **Proceeds** — For working capital. **Underwriter** — Jackson & Co., Boston, Mass.

Harnischfeger Corp. (10/7)
Sept. 17 filed 150,000 shares of common stock (par $10). **Price**—To be supplied by amendment. **Proceeds**—To repay part of bank loans and for general corporate purposes. **Underwriter**—The First Boston Corp., New York.

★ Hawaiian Electric Co., Ltd., Honolulu, T. H. (10/3)
Sept. 25 filed 50,000 shares of common stock to be offered for subscription by common stockholders of record Oct. 3 in the ratio of one new share for each 10 shares held. **Price** — At par ($20 per share). **Proceeds** — To repay short-term notes and for new construction. **Underwriter**—None.

★ Hecht Co., Baltimore, Md. (10/21)
Sept. 30 filed 135,000 shares of common stock (par $15). **Price**—To be supplied by amendment. **Proceeds**—For expansion and working capital. **Underwriter**—Goldman, Sachs & Co., New York.

Helio Aircraft Corp., Norwood, Mass.
July 21 (letter of notification) 3,000 shares of non-cumulative preferred stock (par $1) and 3,000 shares of common stock (par $1) being offered initially to stockholders of record July 25 in units consisting of one share of preferred and one share of common stock. **Price**—$25 per unit to subscribing stockholders and $27.50 per unit to public. **Proceeds** — To continue development of "Courier" model aircraft and to design and develop "Helioplane" type of aircraft. **Office**—Boston Metropolitan Airport, Norwood, Mass. **Underwriters**—Chace, Whiteside, West & Winslow, and H. C. Wainwright & Co., both of Boston, Mass.

Hilseweck Minerals Corp., Dallas and Oklahoma City
Sept. 18 filed $1,500,000 of 20-year non-negotiable debentures due Aug. 1, 1972 and 139,920 shares of common stock (par $1). **Price**—$960 per $1,000 debenture, plus common stock subscription warrants for the purchase of 50 shares of common stock. **Proceeds** — For general corporate purposes. **Business**—To engage in oil and gas business. **Underwriter**—None.

Idaho Maryland Mines Corp.
June 6 filed 200,000 shares of common stock (par $1). **Price**—At market (on the San Francisco Stock Exchange). **Proceeds**—To selling stockholder (Gwendolyn MacBoyle Betchtold, as executrix of the last will and testament of Errol Bechtold, deceased). **Office**—San Francisco, Calif. **Underwriter**—None.

★ International Glass Corp., Beverly Hills, Calif.
Sept. 22 (letter of notification) 299,635 shares of common stock, to be issued as follows: To William Hoeppner, 6,985 shares; to stockholders of Soft-Flex Glass Fabrics Corp., 17,650 shares; and to public, 275,000 shares. **Price**—At par ($1 per share). **Proceeds**—For general corporate purposes. **Office**—119 South Beverly Drive, Beverly Hills, Calif. **Underwriter**—Douglass & Co., Beverly Hills, Calif.

International Technical Aero Services, Inc.
Feb. 15 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For working capital. **Office**—International Terminal, Washington National Airport, Washington, D. C. **Underwriter**—James T. DeWitt & Co., Washington, D. C.

● Iowa Public Service Co.
Aug. 29 filed 150,122 shares of common stock (par $5) being offered for subscription by common stockholders of record Sept. 25 at the rate of one new share for each eight shares held (with an oversubscription privilege); rights to expire on Oct. 14 **Price**—$21 per share **Proceeds**—To pay off temporary bank loans and for property additions and improvements. **Underwriter**—None.

★ Life Underwriters, Inc., Phoenix, Ariz.
Sept. 22 (letter of notification) 600 participating profit units. **Price**—$20 per unit. **Proceeds**—To finance sale of life insurance policies. **Office** — 7 Weldon Street, Phoenix, Ariz. **Underwriter**—None.

Long Island Lighting Co.
Sept. 3 filed 599,942 additional shares of common stock (no par) being offered for subscription by common stockholders of record Sept. 24 in the ratio of one new share for each seven shares held; rights to expire Oct. 9. **Price**—$15.50 per share. **Proceeds**—To finance construction program. **Underwriters**—Blyth & Co., Inc. and The First Boston Corp., both of New York.

★ Luckyleven Mining Corp., Phoenix, Ariz.
Sept. 26 (letter of notification) 7,500 shares of common stock. **Price**—$10 per share. **Proceeds**—To equip and develop mines. **Office**—39 West Adams Street, Phoenix, Ariz. **Underwriter**—None.

McBee Co., Athens, Ohio
Aug. 8 (letter of notification) 2,500 shares of first preferred stock, 5% series. **Price**—At par ($100 per share). **Proceeds**—For working capital. **Underwriter**—Roy E. Hawk & Co., Athens, O.

McCarthy (Glenn), Inc.
June 12 filed 10,000,000 shares of common stock (par 25 cents). **Price**—$2 per share. **Proceeds** — For drilling of exploratory wells, acquisition of leases and for general corporate purposes. **Underwriter**—B. V. Christie & Co., Houston, Tex. **Dealer Relations Representative**—George A. Searight, 50 Broadway, New York, N. Y. Telephone WHitehall 3-2181. **Offering**—Date indefinite.

McGraw (F. H.) Co., Hartford, Conn.
Sept. 10 (letter of notification) 5,000 shares of common stock (par $2) and warrants to purchase 20,000 shares of common stock at $6 per share to be offered in units of one share and warrants to purchase four additional shares. **Price**—$19.87½ per share. **Proceeds**—To Clifford S. Strike, the selling stockholder. **Underwriter**—Granbery, Marache & Co., New York.

★ Mercantile Acceptance Corp. of California
Sept. 26 (letter of notification) 105 shares of first preferred stock, 5% series. **Price**—At par ($20 per share). **Proceeds**—For working capital. **Underwriter**—Guardian Securities Corp., San Francisco, Calif.

★ Mercantile Acceptance Corp. of California
Sept. 28 (letter of notification) $14,675 of 10-year junior subordinated debentures. **Price**—At par. **Proceeds**—For working capital. **Office**—333 Montgomery Street, San Francisco, Calif. **Underwriter** — Guardian Securities Corp., San Francisco, Calif.

★ Michigan Spring Co., Muskegon, Mich.
Sept. 22 (letter of notification) 5,000 shares of 7% cumulative preference stock. **Price** — At par ($10 per share). **Proceeds**—For working capital. **Office**—2700 Wickham Drive, Muskegon, Mich. **Underwriter**—None.

★ Midcontinent Chemical Co., Grove City, Ohio
Sept. 26 (letter of notification) $50,000 of 5½% secured debentures due March 15, 1963. **Price**—At par (in denominations of $1,000 and $500). **Proceeds**—For working capital. **Underwriter**—The Ohio Company, Columbus, Ohio.

Mineral Exploration Corp., Ltd., Toronto Canada
July 29 filed 2,000,000 shares of common stock, each share to have attached an "A," "B" and "C" warrant, each giving the holder the right to buy one additional share for each two shares purchased in two, three, or five years, at $1, $2 and $3 per share, respectively. **Price**—For 2,000,000 shares, $1 per share—Canadian. **Proceeds**—For exploration, development and acquisition of properties. **Underwriter**—Brewis & White, Ltd., Toronto, Canada. Names of United States underwriters to be supplied by amendment.

★ Mississippi Chemical Corp., Yazoo City, Miss.
Sept. 29 filed 2,000,000 shares of common stock (par $5), of which 849,038 shares have been subscribed, paid for and issued, and an additional 107,550 shares have been subscribed for as of Aug. 28 and will be issued in connection with expansion of ammonia plant. The remaining shares will be offered for sale primarily to farmers and farm groups. **Price** — At par. **Proceeds** — For new construction. **Underwriter**—None.

Multiple Dome Oil Co., Salt Lake City, Utah
Sept. 8 (letter of notification) 150,000 shares of common stock. **Price**—At market (approximately 10 cents per share). **Proceeds**—To George W. Snyder, President. **Underwriter**—Greenfield & Co., Inc., New York.

National Tank Co., Tulsa, Okla.
Aug. 27 (letter of notification) 4,000 shares of common stock (par $1). **Price**—At the market (estimated at about $24 per share). **Proceeds** — To Jay P. Walker, President, the selling stockholder. **Address** — Drawer 1710, Tulsa, Okla. **Underwriter**—None.

Nevada Mortgage & Investment Co.
Aug. 25 (letter of notification) 60,000 shares of common stock (par $1) and 240,000 shares of preferred stock (par $1) to be offered in units of four shares of preferred stock and one share of common stock. **Price**—$5 per unit. **Proceeds**—For costs incident to organization and development of business in purchasing and making first and second mortgage loans; and to exercise an option covering sale of income property. **Office**—114 North Third St., Las Vegas, Nev. **Underwriter**—None.

Pacific Western Oil Corp.
Aug. 5 filed 100,000 shares of common stock (par $4). **Price**—At the market. **Proceeds**—To J. Paul Getty, President, **Underwriter** — None, sales to be handled by brokers on the New York Stock Exchange.

Paradise Valley Oil Co., Reno, Nev.
Aug. 20 filed 3,000,000 shares of capital stock. **Price**—At par (10 cents per share). **Proceeds**—To drill six wells on subleased land and for other corporate purposes. **Underwriter**—None, with sales to be made on a commission basis (selling commission is two cents per share). **Office**—c/o Nevada Agency & Trust Co., Inc., Cheney Bldg., 139 N. Virginia St., Reno, Nev.

Perfect Circle Corp., Hagerstown, Ind.
Sept. 17 (letter of notification) 1,000 shares of capital stock (par $2.50). **Price**—At the market (approximately $14 per share). **Proceeds**—To Herman Teetor, the selling stockholder. **Underwriter** — A. G. Becker & Co. Inc., Chicago, Ill.

Phillips Packing Co., Inc., Cambridge, Md.
July 7 (letter of notification) 3,000 shares of common stock (no par). **Price**—At the market (estimated a $7 per share). **Proceeds**—To Levi B. Phillips, Jr., Vice-President, the selling stockholder. **Underwriter**—Alex. Brown & Sons, Baltimore, Md.

★ Phoenix Budget Loans, Inc., Minneapolis, Minn.
Sept. 22 (letter of notification) 4,000 shares of preferred stock, series A (no par). **Price**—$24 per share. **Proceeds**—For working capital. **Office**—227 Twin City Federal Building, Minneapolis, Minn. **Underwriter**—M. H. Bishop & Co., Minneapolis, Minn.

★ Porter-Cable Machine Co., Syracuse, N. Y.
Sept. 24 (letter of notification) 5,000 shares of common stock (no par). **Price**—$20 per share. **Proceeds**—To two

Continued on page 44

Continued from page 43

selling stockholders. **Underwriter**—William N. Pope, Inc., Syracuse, N. Y.

★ Powers Manufacturing Co., Longview, Tex.
Sept. 25 filed 250,000 shares of common stock (par $1). **Price**—$2 per share. **Proceeds**—For machinery and equipment and new construction. **Business**—Production of heavy duty power transmission chain, prockets, gears, etc. **Underwriter**—Dallas Rupe & Son, Dallas, Texas.

Pure Oil Co., Chicago, Ill.
July 17 filed 85,688 shares of common stock (no par) being offered in exchange for 471,287 shares of Hickok Oil Corp., class A common stock (par $1) at rate of one Pure Oil share for each 5½ Hickok shares, conditioned upon approval of merger of Hickok into Pure Oil Products Co., a wholly-owned subsidiary of Pure Oil Co. **Underwriter**—None.

★ Rugh-Yuma Enterprises, Inc., Yuma, Ariz.
Aug. 26 (letter of notification) $50,000 of 8% debenture bonds due serially 1962-1967 and 500 shares of capital stock (par $100). **Price**—At par (the bonds in multiples of $100). **Proceeds**—For construction of a motor hotel. **Address**—Box 1701, Yuma, Ariz. **Underwriter**—None.

Safeway Stores, Inc.
Sept. 12 filed 1,900 shares of 4% cumulative preferred stcok (par $100) and 18,000 shares of common stock (par $5) to be issued to James A. Dick Investment Co. (formerly The James A. Dick Co.) in exchange for inventories, fixtures, operating supplies, good will and other assets of Dick. It is anticipated that the Dick Company will sell all or a substantial part of these shares from time to time on the New York Stock Exchange. **Underwriter**—None.

★ Salt Lake Hardware Co., Salt Lake City, Utah
Sept. 23 (letter of notification) 6,650 shares of common stock (par $10). **Price**—$23.70 per share. **Proceeds**—For working capital. **Office**—105 North 3rd West Street, Salt Lake City, Utah. **Underwriter**—None.

★ Samoan Airlines, Ltd., Pago Pago, American Samoa
Sept. 19 (letter of notification) 7,440 shares of common stock. **Price**—At par ($25 per share). **Proceeds**—For aircraft and equipment. **Underwriter**—None.

★ Schulte (D. A.), Inc., New York
Sept. 26 filed 717,149 shares of common stock (par $1), in two blocks, one in the amount of 349,500 shares and the other 367,649 shares, to be sold from time to time on the New York Curb Exchange. **Price**—At market (approximately $2 per share). **Proceeds**—To certain selling stockholders. **Business**—Cigarette and cigar store chain. **Underwriter**—None.

★ Scudder, Stevens & Clark Fund, Inc., Boston,
Sept. 25 filed 75,000 shares of capital stock. **Price**—At market. **Proceeds**—For investment. **Underwriter**—None.

Seacrest Productions, Inc., Newport, R. I.
Sept. 8 (letter of notification) 5,000 shares of non-voting common stock, series B (no par). **Price**—$10 per share. **Proceeds**—To acquire real estate and buildings, convert sound stages, install recording equipment and cameras, and for other corporate purposes. **Office**—73 Bliss Road, Newport, R. I. **Underwriter** — Kidder, Peabody & Co., Providence, R. I.

Security Title & Guaranty Co., N. Y.
Aug. 22 (letter of notification) 32,000 shares of common stock (par $1). **Price**—At market (about $2 per share). **Proceeds**—To Investors Funding Corp. of New York. **Underwriter**—Dansker Brothers & Co., Inc., New York.

Sierra Pacific Power Co. (10/8)
Sept. 15 filed 26,775 shares of common stock (par $15) to be offered for subscription by holders of preferred and common stocks of record about Oct. 8 on the basis of one share for each six shares of preferred and one share for each 12 shares of common stock; rights to expire about Oct. 20. **Price**—To be supplied by amendment. **Proceeds**—From sale of stock, plus proceeds from private sale of $1,500,000 first mortgage bonds in October, 1952, to be used to repay $1,100,000 bank loans and for new construction. **Underwriter**—Stone & Webster Securities Corp., New York, and Dean Witter & Co., San Francisco, Calif.

Signal Mines, Ltd., Toronto, Canada
July 14 filed 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For exploration, development, and mining expenses, and to reimburse Maurice Schack, Secretary-Treasurer. **Business**—Quartzite mining. **Underwriter** — Northeastern Securities Co., New York.

• Socony-Vacuum Oil Co., Inc.
Sept. 5 filed 3,180,188 shares of capital stock (par $15) being offered for subscription by stockholders of record Sept. 25 at rate of one new share for each 10 shares held; rights to expire on Oct. 14. **Price**—$31 per share. **Proceeds**—For the acquisition and development of crude oil production, and the expansion and improvement of refining, transportation and marketing facilities. **Underwriter**—Morgan Stanley & Co., New York.

• Southeastern Fund, Columbia, S. C. (10/6-10)
Aug. 14 filed $350,000 of 10-year 6% subordinated sinking fund debentures (with common stock purchase warrants attached) and 175,000 shares of common stock par $1). **Price** — To be supplied by amendment. **Proceeds** — To redeem $53,500 outstanding 5¼% subordinated convertible debentures and 10,000 shares of 6½% cumulative preferred stock (at $11 per share and accrued dividends), and for additional working capital. **Business**—Financing retail sales of house trailers on conditional sales contracts. **Underwriter**—Barrett Herrick & Co., Inc., New York.

Southern New England Telephone Co. (10/8)
Sept. 22 filed 400,000 shares of capital stock to be offered for subscription by stockholders of record Oct. 8 at rate of one share for each nine shares held. **Price**—At par ($25 per share). **Proceeds**—To repay $3,500,000 advances from American Telephone & Telegraph Co. (owner of 960,296 shares, or 26.67%, of the voting stock of Southern, and for property additions and improvements. **Office**—New Haven, Conn. **Underwriter**—None.

Standard Oil Co. (Indiana)
Aug. 28 filed $139,647,200 of 30-year 3⅛% debentures due Oct. 1, 1982 (convertible on or before Oct. 1, 1962), being offered for subscription by holders of capital stock at the rate of $100 of debentures for each 11 shares of stock held as of Sept. 17; rights to expire on Oct. 6. **Price**—100%. **Proceeds**—To retire $50,000,000 of 1¾% bank loans of company, $25,000,000 of 1.75% notes of Stanolind Oil & Gas Co., a wholly-owned subsidiary, payable to banks; and $6,500,000 of 2.75% notes of Pan-Am Southern Corp., a subsidiary substantially owned by Standard, payable to banks. Any remainder will be used for capital expenditures. **Underwriter**—Morgan Stanley & Co., New York.

State Exploration Co., Los Angeles, Calif.
Aug. 6 (letter of notification) 43,000 shares of capital stock (par $1) being offered for subscription by stockholders of record Aug. 20 at rate of one share for each 10 shares held; rights to expire on Sept. 19. **Price**—$5 per share. **Proceeds** — For expansion program and general corporate purposes. **Office**—649 S. Olive St., Los Angeles, Calif. **Underwriter** — None. Unsubscribed shares will be sold to "small group of individuals."

Streeter-Amet Co., Chicago, Ill.
Aug. 27 (letter of notification) 2,367 shares of common stock (par $50) to be offered for subscription by common stockholders at rate of one new share for each four shares held. **Price**—$100 per share. **Proceeds**—To increase equity capital to take care of increased business and increased costs. **Office**—4101 Ravenswood Avenue, Chicago 13, Ill. **Underwriter**—None.

Sunshine Packing Corp. of Pennsylvania
July 3 filed $1,000,000 of 6% convertible debentures due 1972 (subordinate) and 450,000 shares of common stock (par 50 cents) of which the debentures and 400,000 shares of stock are to be offered in units of $50 of debentures and 20 shares of stock. **Price**—$100 per unit. **Proceeds**—To increase capacity of plant and for working capital. **Underwriter**—Weber-Millican Co., New York.

Sweet Grass Oils, Ltd., Toronto, Canada
July 29 filed 375,000 shares of common stock (no par). **Price**—To be related to quotation on the Toronto Stock Exchange at time of offering. **Proceeds**—For working capital. **Underwriter**—F. W. MacDonald & Co., Inc., New York. **Offering**—Probably some time in October.

Texas General Production Co.
June 4 filed 2,500,000 shares of common stock (par 50 cents). **Price**—To be supplied by amendment. **Proceeds**—To buy property for oil prospecting. **Office**—Houston, Tex. **Underwriter**—To be named by amendment (probably Hemphill, Noyes & Co. New York). **Offering**—Tentatively postponed.

Texhead Royalty Co., Houston, Texas
July 17 (letter of notification) $135,000 of 3% income notes, due July, 1962, and 30,000 shares of common stock (par 10 cents) to be offered in units consisting of $9 principal amount of notes and two shares of common stock of this company, together with one $9 note and two common shares of the Wilhead Royalty Co. **Price**—$20 per unit. **Proceeds**—For acquisition of oil and gas royalties in the southwest. **Office** — 415 San Jacinto Bldg., Houston 2, Texas. **Underwriter**—Rotan, Mosle & Moreland, Houston, Tex. (See also Wilhead Royalty Co. below.) Placed privately.

Texo Oil Corp., Ardmore, Okla.
Sept. 2 (letter of notification) 934,400 shares of common stock (par one cent). **Price**—31¼ cents per share. **Proceeds**—To drill three wells to test formation on corporation's leases in Duval and Live Oak Counties, Texas. **Underwriter**—Stanley Pelz & Co., Inc., New York.

Thompson Trailer Corp., Pikesville, Md.
Aug. 27 (letter of notification) $116,150 of 5% convertible debentures, first issue, due Sept. 1, 1962. **Price**—At par (in units of $50 each). **Proceeds**—For working capital. **Address**—P. O. Box 356, Pikesville, Md. **Underwriter**—None.

Torhio Oil Corp., Ltd., Toronto, Canada
Aug. 21 filed 300,000 shares of common stock (par $1) to be offered first to stockholders and then to the general public. **Price** — 60 cents per share. **Proceeds**—For exploration of oil and gas properties, and to drill a test well. **Underwriter**—None, but offering to public will be handled through brokers.

★ Uintah-Wyoming Oil & Gas Co.
Sept. 22 (letter of notification) 500,000 shares of capital stock. **Price**—Five cents per share. **Proceeds**—To acquire lease and royalty interests. **Office**—211 Phillips Petroleum Building, Salt Lake City, Utah. **Underwriter**—None.

★ United Funds, Inc., Kansas City, Mo.
Sept. 26 filed 100,000 United Continental Fund Shares. **Price**—At market. **Proceeds**—For investment. **Underwriter**—Waddell & Reed, Inc., Kansas City, Mo.

• United Gas Corp., Shreveport, La. (10/7)
Sept. 5 filed $60,000,000 sinking fund debentures due 1972. **Proceeds**—To repay bank loans and for construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp., Harriman Ripley & Co., Inc. and Goldman, Sachs & Co. (jointly); Morgan Stanley & Co., White, Weld & Co. and Equitable Securities Corp. (jointly). **Bids**—To be received up to 11 a.m. (EST) on Oct. 7, at Room 2033, No. 2 Rector Street, New York 6, N. Y.

U. S. Airlines, Inc., Fort Lauderdale, Fla.
Aug. 4 (letter of notification) $210,000 of 7% convertible equipment trust certificates, series A, due Aug. 15, 1954. **Price**—At par (in units of $100 and $1,000 each). **Proceeds**—For purchase of two aircraft. **Underwriters**—John R. Kaufmann Co., Scherck, Richter Co. and Semple, Jacobs & Co., Inc., all of St. Louis, Mo.; and Gearhart & Otis, Inc., New York.

Utah Power & Light Co. (10/14)
Aug. 14 filed $10,000,000 of first mortgage bonds due 1982. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Lehman Brothers and Bear-Stearns & Co. (jointly); The First Boston Corp. and Blyth & Co., Inc. (jointly); Union Securities Corp. and Smith, Barney & Co. (jointly); Kidder, Peabody & Co.; Salomon Bros. & Hutzler. **Bids**—Tentatively scheduled to be received up to noon (EST) on Oct. 14.

★ Van Horn Butane Service, King City, Calif.
Sept. 22 (letter of notification) 10,000 shares of capital stock (no par). **Price**—$16.10 per share. **Proceeds**—For working capital. **Address**—P. O. Box 1, King City, Calif. **Underwriter**—Schwabacher & Co., San Francisco, Calif.

Virginia Electric & Power Co. (10/21)
Sept. 17 filed $20,000,000 of first and refunding mortgage bonds, series J, due Oct. 1, 1982. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders; Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Wertheim & Co. (jointly); Stone & Webster Securities Corp.; Union Securities Corp.; Salomon Bros. & Hutzler; White, Weld & Co. **Bids**—To be received up to 11 a.m. (EST) on Oct. 21, at 11 Broad Street, New York, N. Y.

White's Auto Stores, Inc. (10/8)
Sept. 18 filed 100,000 shares of cumulative convertible preferred stock (par $25). **Price** — To be supplied by amendment. **Proceeds**—To redeem 5% convertible preferred stock and for working capital. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York.

Wilhead Royalty Co., Houston, Texas
July 17 (letter of notification) $135,000 of 3% income notes due July, 1962, and 30,000 shares of common stock (par 10 cents) to be offered in units consisting of $9 principal amount of notes and two shares of common stock of this company, together with one $9 note and two common shares of Texhead Royalty Co. **Price**—$20 per unit. **Proceeds**—For acquisition of oil and gas royalties in the Williston Basin area. **Office**—415 San Jacinto Bldg., Houston 2, Texas. **Underwriter**—Rotan, Mosle & Moreland, Houston, Tex (See also Texhead Royalty Co. above.) Placed privately.

Wisdom Magazine, Inc., Beverly Hills, Calif.
Sept. 17 filed 6,600 shares of 5% cumulative preferred stock (par $100) and 6,600 shares of common stock (par $10) to be offered in units of one share of preferred and one share of common stock. **Price**—$110 per unit. **Proceeds**—To publish new national picture magazine. **Underwriter**—None. An earlier registration statement filed July 14, 1952, covering a like offering of preferred and common shares was withdrawn Aug. 1, 1952.

★ Woodward Oil, Inc., Denver, Colo.
Sept. 23 (letter of notification) 1,750,000 shares of common stock (par five cents), to be offered for subscription by present stockholders. **Price** — 17 cents per share. **Proceeds**—To drill test well. **Office**—721 Cooper Building, Denver, Colo. **Underwriter**—None.

Zenda Gold Mining Co., Salt Lake City, Utah
Aug. 18 (letter of notification) 1,200,000 shares of common stock (par 10 cents). **Price**—At market, but not less than par value. (Current quotation of the company's stock on the Los Angeles Stock Exchange is seven cents bid and nine cents offered, if $120,000 gross sales price is received by the issue before all shares are sold, no further shares will be offered). **Proceeds** — For Alaska tin placer leases, exploration and development, retirement of debt, and working capital. **Office**—30 Exchange Place, Salt Lake City 1, Utah. **Underwriter**—Samuel B. Franklin & Co. of Los Angeles, Calif.

Prospective Offerings

Arkansas Power & Light Co.
Aug. 7 C. Hamilton Moses, President, announced that the company expects to borrow additional money next Spring to finance its 1953 construction program, which, it is estimated, will involve $29,500,000.

• Bemis Bro. Bag Co.
Sept. 30 stockholders were to vote on increasing authorized indebtedness by issuance of $14,000,000 notes.

Benson & Hedges
Sept. 10, Joseph F. Cullman, Jr., President, announced proposed offering of common stock for subscription to stockholders at rate of one new share for each 10 shares held, also proposed issue and sale of $3,000,000 of debentures. **Underwriters**—For stock: none, with Tobacco & Allied Stocks, Inc. (owner of over 50% of present outstanding common stock) to buy any unsubscribed shares. For debentures: Morgan Stanley & Co., New York. **Offering**—Expected some time prior to end of 1952.

Byrd Oil Corp., Dallas, Tex.
July 22 it was announced stockholders will in the fall receive the right to subscribe for $1,700,000 of 5½% first mortgage (convertible) bonds on a pro rata basis for a 14-day standby (certain stockholders have waived their rights). **Proceeds**—To repay bank loans and for development and exploration expenses. **Underwriters**—

Probably Dallas Rupe & Son, Dallas, Tex.; Carl M. Loeb, Rhoades & Co., New York; and Straus, Blosser & McDowell, Chicago, Ill.

★ Central of Georgia Ry. (10/16)
Bids will be received at the office of J. P. Morgan & Co. Incorporated, 23 Wall Stree, New York, N. Y., up to noon (EST) on Oct. 16 for the purchase from the railway company of $2,775,000 equipment trust certificates, series "X," to be dated Nov. 1, 1952, and due $165,000 annually from Nov. 1, 1953 to and including Nov. 1, 1967. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Bear, Stearns & Co.

Central Hudson Gas & Electric Corp.
March 4 it was reported company plans the sale this Fall of about $5,500,000 first mortgage bonds. Latest bond financing was done privately in March, 1951 through Kidder, Peabody & Co.

Central Maine Power Co.
Sept. 2 it was announced company soon after March 1, 1953, intends to issue and sell $6,000,000 of first and general mortgage bonds and sufficient common stock to yield approximately $5,000,000 to refund the then outstanding short-term notes. **Underwriters**—To be determined by competitive bidding. Probable bidder—(1) For bonds, Halsey, Stuart & Co. Inc.; Coffin & Burr, Inc. and The First Boston Corp. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler. (2) For stock, Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Coffin & Burr, Inc. and The First Boston Corp. (jointly); Harriman Ripley & Co., Inc.

Cleveland Electric Illuminating Co.
Sept. 11 it was reported company plans to raise about $28,000,00 later this year through the sale of additional common stock, probably to its stockholders on a 1-for-5 basis. **Proceeds**—For expansion program. **Underwriter**—None.

Connecticut Light & Power Co.
March 1 it was announced that it is presently estimated that approximately $11,000,000 of additional capital will be required during the latter half of 1952. **Underwriter**—Putnam & Co., Hartford, Conn.

● Consolidated Freightways, Inc. (10/9)
Aug. 26 company applied to the Interstate Commerce Commission for authority to issue and sell 100,000 additional shares of common stock (par $5). **Business**—Second largest motor common carrier of general freight in the United States. **Underwriters**—Blyth & Co., Inc., San Francisco, Calif., and associates.

Detroit & Toledo Shore Line RR. (11/15)
Sept. 17 it was announced that the company is planning to issue and sell $3,000,000 first mortgage bonds due 1982. **Proceeds** — To refund approximately $3,000,000 bonds which mature on Jan. 1, 1953. **Underwriters**—To be determined by competitive bidding. Probable bidders may include Halsey, Stuart & Co. Inc. **Bids**—Expected to be received about Nov. 15.

Duke Power Co.
Sept. 16 company announced that further construction will later on require additional financing. There are, however, no plans for raising any new capital at the present time. Stockholders on Oct. 15 will vote on increasing authorized capital stock to 5,000,000 shares from 1,500,000 shares and on approving a 3-for-1 stock split.

Eastern Utilities Associates
Sept. 3 it was announced that amended plant of reorganization of this company and subsidiaries calls for issuance by company of $7,000,000 debentures and a sufficient amount of common stock to raise approximately $2,000,000. plan further provides that Blackstone Valley Gas & Electric Co., Brockton Edison Co., and Fall River Electric Light Co. issue mortgage bonds. **Proceeds**—To repay bank loans. **Underwriters**—For EUA debentures may be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (for bonds only); Lehman Brothers; Estabrook & Co. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and Harriman Ripley & Co., Inc. (jointly).

European American Airlines, Inc.
June 11 it was reported company plans to raise an additional $400,000 of equity capital. An issue of $200,000 of capital stock was just recently placed privately at $7.50 per share. Underwriter — Gearhart, Kinnard & Otis, Inc., New York.

Georgia & Florida RR.
Sept. 22 company applied to ICC for authority to issue and sell $717,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler.

Gulf Interstate Gas Co., Houston, Tex.
Sept. 16 company applied to the FPC for authority to construct an 860-mile pipeline extending from southern Louisiana to a point in northeastern Kentucky. This project would cost about $127,887,000. Transportation of gas is expected to commence by Nov. 1, 1954.

● International Bank for Reconstruction and Development ("World Bank") (10/9)
Sept. 25 it was announced bank plans to issue and sell $60,000,000 of sinking fund debentures to be dated Oct. 15, 1952, and to mature Oct. 15, 1971. **Underwriters**—The First Boston Corp. and Morgan Stanley & Co., both of New York.

★ Jefferson Electric Co., Bellwood, Ill.
Sept. 30 it was announced company plans public sale of part of the 200,000 shares of common stock (par $5) remaining authorized and unissued following the two-for-one stock split. **Proceeds**—To finance plant expansion and new product development. **Underwriter**—Paul H. Davis & Co., Chicago, Ill.

Kansas City Power & Light Co.
Sept. 15 company announced that it plans to issue and sell late in 1952 $12,000,000 principal amount of first mortgage bonds **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; Blyth & Co., Inc. and Lazzard Freres & Co. (jointly); The First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Smith, Barney & Co.; Kuhn, Loeb & Co., Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Equitable Securities Corp.; Lehman Brothers and Bear, Stearns & Co. (jointly); Harriman Ripley & Co., Inc. **Proceeds**—For new construction.

Long Island Lighting Co. (11/18)
Aug. 27 company announced its plan to issue and sell $20,000,000 additional mortgage bonds. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co.; Smith, Barney & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly). **Offering**—Tentatively scheduled for sometime in November.

Maine Central RR.
Sept. 2 company sought ICC permission for authority to issue and sell $1,500,000 of divisional lien bonds without competitive bidding. **Proceeds** — Together with other funds, will be used to retire the outstanding $1,676,000 Portland & Ogdensburg Ry. first mortgage 4½% bonds which mature Nov. 1, 1953. **Offering** — May be made privately.

Mid South Gas Co.
Aug. 23 it was reported company has asked the FPC for authority to start work on a $7,000,000 expansion program. An early decision is expected.

Mississippi Power & Light Co.
March 14 it was reported company plans to issue and sell in November an issue of $8,000,000 first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probably bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp. and W. C. Langley & Co. (jointly); Equitable Securities Corp. and Shields & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.

★ Mutual Telephone Co. (Hawaii)
Sept. 23 it was announced company expects to place privately in October an issue of $2,500,000 3½% bonds and plans to issue and sell next year about $3,000,000 securities, half in preferred stock and half in common stock. **Traditional Underwriter**—Kidder, Peabody & Co., New York.

National Credit Card, Inc., Portland, Ore.
Sept. 8 it was reported company is considering doing some equity financing (probably in the form of class B stock of $20 par value).

New Orleans Public Service Inc. (12/15)
July 24 company announced plans to issue and sell $6,000,000 of first mortgage bonds due Dec. 1, 1982. **Proceeds**—For new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp.; Union Securities Corp. **Registration** — Expected about Nov. 14. **Bids** — Tentatively set for Dec. 15.

Northern Indiana Public Service Co.
Sept. 18 it was reported company may issue and sell shortly after the close of this year some additional preferred and common stock. **Underwriters**—May be Central Republic Co. (Inc.), Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane.

Northern Natural Gas Co., Omaha, Neb.
Sept. 17 company sought FPC authority to construct pipeline facilities to cost an estimated $69,826,000. This would include about 442 miles of main pipeline additions; installation of a total of 73,600 h.p. in new and existing compressor stations; and numerous branch line additions. Probable bidders for debentures or bonds; Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First mortgage pipeline bonds. and preferred and common Boston Corp. and Kidder, Peabody & Co. (jointly). Common stock financing will probably be done via rights.

Oklahoma Metropolitan Oil & Gas Corp.
Sept. 10 it was announced that company plans some additional common stock financing in about two or three weeks. **Proceeds**—For acquisition of properties, working capital and drilling expenses, etc. **Underwriter**—Scott, Khoury, Brockman & Co., Inc.. New York.

Pacific Associates, Inc.
Sept. 13 it was reported corporation plans to sell publicly an issue of prior preference stock to finance expansion of Kaar Engineering Corp. of Palo Alto, Calif.

Pacific Northwest Pipeline Corp.
Aug. 29 company filed a second substitute application with the FPC proposing to construct a 1,384-mile transmission line extending from the San Juan Basin in New Mexico and Colorado to market areas in the Pacific Northwest. Estimated overall capital cost of the project is $179,000,000. Financing is expected to consist of first stocks, and is expected to be completed by April, 1953. **Underwriters**—White, Weld & Co. and Kidder, Peabody & Co., both of New York, and Dominion Securities Corp., Ltd., Toronto, Canada.

Pacific Telephone & Telegraph Co.
Sept. 3 company was authorized by the California P. U. Commission to offer for subscription by stockholders an additional 703,375 shares of common stock (par $100) in the ratio of one new share for each nine shares of common or preferred stock held. American Telephone & Telegraph Co., the parent, presently owns approximately 90% of the outstanding common stock. **Price**—At par. **Proceeds**—To repay construction loans and for further expansion. **Underwriter**—None.

Pacific Telephone & Telegraph Co. (11/18)
Sept. 3 California P. U. Commission approved a proposal authorizing the company to issue and sell $35,000,000 of debentures due Nov. 15, 1979. **Proceeds** — For repayment of advances and bank loans and for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Union Securities Corp. (jointly); White, Weld & Co.; Morgan Stanley & Co. **Bids**—Tentatively set to be received at 8:30 a.m. (PST) on November 18.

● St. Louis, Brownsville & Mexico Ry. (10/8)
Bids will be received by the company up to noon (CST) on Oct. 8 for the purchase from it of $2,450,000 equipment trust certificates, series EE, to be dated Oct. 15, 1952 and to mature in 1-to-10 years. Probable bidders: Halsey Stuart & Co. Inc.; Salomon Bros. & Hutzler.

San Diego Gas & Electric Co.
July 1, L. M. Klauber announced that of the more than $18,000,000 required for capital improvements in 1952, approximately $4,000,000 will become available from depreciation reserves and earned surplus, while the remainder must be secured through the sale of securities. **Underwriter**—Blyth & Co., Inc. handled previous preferred stock financing.

Seiberling Rubber Co.
Sept. 3 it was announced that company plans to issue and sell publicly $3,750,000 of 15-year convertible sinking fund debentures. **Proceeds**—To repay $1,200,000 loan and for working capital. **Underwriter**—Blair, Rollins & Co. Inc., New York.

Seymour Water Co., Seymour, Ind. (10/10)
Bids will be received by the company up to 11 a.m. (CST) on Oct. 10 at its office, 114 South Chestnut St., Seymour, Ind., for the purchase from it of 5,000 shares of cumulative preferred stock (par $25). No proposal for less than par and no dividend rate in excess of 6% will be considered.

Southern Natural Gas Co.
Sept. 15 it was announced that the company expects to sell additional bonds during the first six months of 1953 in the amount then permissible under its mortgage indenture, and to provide for other permanent financing by the sale of additional first mortgage bonds or other securities in such amounts as may be appropriate at the time. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; The First Boston Corp., Blyth & Co. Inc. and Kidder, Peabody & Co. (jointly). Any stock financing may be via stockholders.

Southern Ry.
Aug. 20 the ICC denied the application of this company for permission to sell not exceeding $46,000,000 of new bonds without complying with the usual competitive rules. If offered competitively, the bidders may include Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Morgan Stanley & Co. **Proceeds**—To meet in part the outstanding bond maturities of Southern Ry. and New Orleans Terminal Co.

Southwestern Public Service Co.
Aug. 4 it was reported that company may do some additional common stock financing (with offer to be made first to stockholders) and use the proceeds toward its construction program which, it is estimated, will involve approximately $23,000,000 for the year ended Aug. 31, 1953. Additional bond and preferred stock financing may also be necessary; this previously was done privately. **Underwriter**—Dillon, Read & Co. Inc., New York.

★ Toledo Edison Co.
Sept. 22 company announced that company plans to construct a $25,000,000 steam generating station on a 400-acre site now being acquired near Toledo, Ohio, for about $750,000. It was reported that this may be financed in part with the sale later this year of about 400,000 additional shares of common stock. Probable bidders may include: Merrill Lynch, Pierce, Fenner & Beane; Blyth & Co., Inc.; Smith, Barney & Co. and Collins, Norton & Co. (jointly); Lehman Brothers, Harriman Ripley & Co., Inc., Bear, Stearns & Co. and Carl M. Loeb, Rhoades & Co. (jointly); W. C. Langley & Co.

United Gas Corp., Shreveport, La.
Sept. 10 Electric Bond & Share Co. applied to SEC for authority to offer for subscription by its stockholders 525,000 shares of common stock (par $10) of United Gas Corp. on a 1-for-10 basis. **Price**—To be named later. **Proceeds** — To Electric Bond & Share Co., which now (owns 3,165,781 shares, 27.01%) of outstanding United Gas stock. **Underwriter**—None.

United States Pipe Line Co. (Del.)
Sept. 25, 1950 it was announced that this company had been formed to build, own and operate a petroleum products pipeline from the Texas Gulf Coast to St. Louis, Chicago and other midwest markets to operate as a "common carrier." The initial financing has been arranged for privately with no public offering expected for at least two years. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation. **Underwriters**—Probably Dillon, Read & Co. Inc. and Glore, Forgan & Co., both of New York.

Western Natural Gas Co.
Sept. 2 stockholders approved the creation of an authorized issue of 500,800 shares of preferred stock (par $30), of which the company plans to offer about 170,000 shares as convertible preferred stock (carrying a dividend rate of about 5%) for subscription by common stockholders. **Proceeds**—To redeem 2,053 outstanding shares of 5% preferred stock (par $100), to retire bank loans and for new construction. **Traditional Underwriter**—White Weld & Co., New York.

Conservation of Oil Essential!

By HON. ALLAN SHIVERS*
Governor of Texas

Executive of leading oil producing state praises measures taken to conserve oil and natural gas in U. S., saying it has stabilized the industry, but warns nation faces oil shortage unless more reserves are found or there is improvement in production recovery.

The importance of oil and gas conservation to the United States is so obvious that it needs little elaboration, and at the same time so vast that it could be—and is—the subject of many books, articles and technical discussions. Let me merely say here that our country literally runs on petroleum. In the last 50 years there has been a 500% increase in the production of consumer goods and services in the United States, and a commensurate increase in energy consumption. Over that same period the role of oil and natural gas became increasingly important until now they supply over half of our greatly increased energy requirements.

And the mere thought of the tremendous petroleum consumption brought about by World War II and its aftermath is sufficient to impress one with the desirability and the necessity of conserving to the fullest degree our irreplaceable stores of oil and natural gas.

In addition to the demand for oil and gas as an encouragement to conservation, there is the depletion of reserves. At the present rate of consumption, our present proven reserves of oil would last only 12½ years—our gas about 25 years. It is true that our known reserves are constantly growing, but inevitably there will be a shortage of petroleum unless cheaper, better fuel is found or developed to replace it. This is an important factor in the conservation picture.

Another factor is the economic waste involved in the inefficient production of oil. With all of our improved methods and techniques, we are still recovering less than 40% of the oil in place in present-day fields. This fact presents a real challenge to our engineers and technicians, and they are responding to it with more than a little success. The Interstate Oil Compact Commission is proud to have been helpful in stimulating interest in secondary recovery, as well as in improved methods of primary recovery.

These two points—depletion of reserves and inefficiency of production—are often seized upon by proponents of a more centralized system of controls, as evidence that the present system is faulty. Let us remember to tell these critics that the tremendous growth of the oil industry has come about under and principally because of a system that combines the best points of private initiative and public regulation—that this system is finding more oil every day, in Alberta and Saskatchewan and North Dakota and elsewhere—and that, while our average recovery is still too low, in some instances it is running as high as 80%.

Conservation the Keystone

Conservation, then, is the keystone of a sound public policy on oil and gas production. The other vital factors are (1) regulation—the prescribing of sound rules that will protect property rights and secure the greatest possible return — and (2) a tax structure that gives both the government and the industry a fair return from the production of oil and gas.

Regulation, of course, is actually a part of conservation—and conservation in turn affects the tax picture. A sound conservation program is good business as well as good public policy. It can stabilize the oil industry and make it an orderly, long-lasting business that will contribute liberally in tax revenues to local, state or provincial governments for many years to come.

The tax policy of a wise government will be designed to encourage, rather than to discourage, production and expansion. The state, in justice and common sense, must try to protect all industry, including the oil industry, from excessive and confiscatory taxation.

The most ardent exponents of conservation today are to be found in the oil industry itself. The industry has learned from bitter experience that it is better to produce slowly for a long time than to enjoy a short period of flush production and leave most of the oil in the ground forever.

Oil men have found that oil in the ground is better than money in the bank, and bankers have learned that geologists can prove up assets that can't be seen but are nevertheless safe and sure.

Parenthetically, I might say here that the Province of Alberta is already realizing the stabilizing benefits of oil production in the field of governmental finance. I am informed that the revenues from your oil and gas development are well on the way toward making Alberta the only debt-free province in Canada.

In summary, then, conservation of oil and gas in my country have made a stable, sound, tax-paying industry of what was once more or less of a boom-town business, and it has provided more oil and gas when we need it, where we need it—at the same time keeping an eye on the future and trying to play fair with those who will follow us.

It is imperative that we in public office, who are charged with the responsibility of protecting the public interest, always remember that nothing is more important to the oil industry, and therefore to the country, than the preservation of opportunity and incentive for the little man. The oil business, like any other, is genuinely prosperous only when the little fellow prospers.

The wildcatter and the small independent form the great core of the oil industry. They are the modern-day pioneers, willing to risk time and money to develop new oil frontiers.

An obligation rests upon the industry and the government to see that a proper balance is maintained between the opportunity demanded by free enterprise and the regulation necessary in the public interest.

As the most important factor in carrying out that obligation, conservation has been and will continue to be a vital responsibility in our respective states and provinces, for the common good of the free world.

*An address by Governor Shivers before the Interstate Oil Compact Commission, Banff, Alberta, Canada, Sept. 2, 1952.

Joins Hodgdon Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Dorothy Roosov is now with Hodgdon & Co., 10 State Street. Miss Roosov was formerly Assistant Treasurer of the General Stock & Bond Corp.

Draper, Sears Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Stanley E. Field has been added to the staff of Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges.

Continued from page 9

Federalism and the Future Of Savings Banks

tive measures without resort to the Legislature.

Local Control Preferred

I have now mentioned two of the general arguments in favor of federalization and have indicated what I feel to be the weaknesses in these arguments. At this point I want to state what I feel to be the prime reason against Federal charter for savings banks. It is the old — but none the less valid — argument as to local control against centralized control, states rights against federalism. In the first place, it seems to me that our state legislatures and state banking authorities can best determine what local conditions require. In making laws and regulations, it would be unfortunate, in my judgment, if it were necessary at all times to consider the situation in the North, South, East and West—and variations within these areas—before adopting a policy covering everybody. Secondly, it seems to me that our problems can be settled more expeditiously by resort to local authorities than by resort to Washington. To shift the supervision of our affairs to a bigger legislature, preoccupied with other matters, and to a bigger bureaucracy, presiding over many institutions in many different places, would seem to me to be a step backward which we would long regret.

I have dealt with some of the general reasons for Federal charter. Now I would like to turn to what I believe to be some of the specific reasons why some people in my own state have recently been toying with the idea of federalization for savings banks. I want to emphasize that these reasons are applicable to my own state. A different situation may prevail in other states. However, they will serve to illustrate how the matter of federalization is brought into the limelight.

One of the main problems of savings banking at the moment is the problem of extending our facilities. It has become clear, in my state at least, that this can only be done satisfactorily through the establishment of branches. But savings banks are blocked by law from providing branches in areas where they are needed. The fastest growing county in our state has only one savings bank office. Many large communities throughout the state have no savings bank offices at all. We have sought legislation on this subject; we have thus far got nowhere.

At the same time, and in contrast to our own situation, the Home Loan Bank Board has assumed the power to grant branches to savings and loan associations without regard to the restrictions of state laws. Our strongest competitors therefore have a great advantage over us. We have so far been unable to overcome this advantage by restricting these associations to branches on the basis allowed by state law. It has been tried in the courts and the United States Supreme Court has ruled in their favor. It has been tried by Federal legislation and we have got nowhere so far. It has been tried by local legislation in Massachusetts and the law has been declared unconstitutional by the highest state court.

Under these circumstances, it is small wonder that our people have been attracted by the old maxim "if you can't lick 'em, join 'em." By joining the ranks of thrift institutions under Federal charter, they can see the opportunity to expand their facilities and to serve the public in those areas where their services are needed.

The Branch Problem and the Borrowing Problem

In our state, another instance of the advantages of Federal charter became apparent last year. When the Federal Reserve authorities modified their policy of supporting the government bond market, some of our institutions had substantial mortgage commitments which could only be met by selling government bonds at a substantial loss. Had they been Federal savings and loan associations they could have met this situation, temporary in nature, by borrowing. As savings banks they could not borrow, except for the specific purpose of repaying deposits. Happily, increased deposits and the recovery of bond prices allowed the situation to work itself out. However, it was at the time a matter of grave concern to those involved and it lent dramatic support to those who eye the Federal charter with interest.

I have mentioned these two matters—the branch problem and the borrowing problem—because I feel it is desirable to deal with actual cases rather than generalities. I also mentioned these two matters because I want to consider with you how such cases should be dealt with by state supervisory authorities.

Warns Against "Competition in Laxity"

I know that you supervisors are weary of hearing as an argument for the removal of restrictions the statement that the national banks, or the Federal associations, or the Federal credit unions have no such restrictions. This argument is not, and has never been sufficient in itself. I also know that you supervisors always have ready in reply that stock answer, using a phrase from Comptroller Pole—that we should not get involved in "competition in laxity." That answer also is not, and never has been, sufficient in itself. Sometimes I wish the phrase had never been uttered. We should be very much against competition in laxity, but we should be very much in favor of competition in progressive banking regulation. If the Federal supervisors have put into effect a sound rule or policy, the state authorities should not be backward or nervous about imitating it, and vice versa.

We criticize the Federal savings and loan system because they have a more liberal branch policy than many of the states. Perhaps their policy is right, at least to a certain extent, and the state policy ought to be adjusted. In the case of the power to borrow in order to meet mortgage commitments, it is possible that the Federal policy is also at least partially correct and that a limited borrowing power is desirable in order to promote the smooth flow of mortgage investments into savings banks.

Every time the Federal authorities adopt a more liberal policy toward any group of supervised institutions, you state supervisors are going to be faced with a problem. Institutions under state supervision are eventually going to ask why they should not get the same privileges. It seems to me that it is the responsibility of the state banking authorities to review each situation of this kind as it arises. It goes without saying that it should be reviewed from the standpoint of the interests of the public in general and that special interests or pressure groups should not be permitted to influence the solution. Furthermore, I believe that it is your responsibility to reach a prompt conclusion. I am convinced that you would all save yourselves a lot of headaches and win yourselves a lot of respect if, before the grumbling starts, you took the lead in examining the policy in question and determining whether or not it is one which you will adopt or, if a statutory amendment is needed, is one which you will support at the next legislative session. Whatever conclusion you reach, it is my opinion that a policy of real leadership in facing the question and reaching a decision will serve you well.

The two matters that I have mentioned — extended branch powers and expanded borrowing powers for savings banks—illustrate my point. Our State Banking Department has faced up to these matters. On the first, the Department has taken the lead in furthering a joint study and analysis of the matter by savings banks and commercial banks, the latter being brought in because of their opposition to savings bank branch extension. As to the matter of borrowing power, this is to be analyzed by the Banking Department and a final decision is pending.

Whatever may be the decision as to problems of this kind which arise from time to time, it is my earnest hope that they may be worked out on a local basis under State charter. This may take time and struggle and boundless patience, but I prefer it to attempting to seek a hasty solution to our difficulties by resort to Federal charter and by transfer of our allegiance to Washington. I earnestly hope that our savings banks may never be forced into the position where they must add one more stone to the edifice of big government.

With First California

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, Calif. — Jay C. Germain is now connected with First California Company Incorporated, Bank of America Building. He was previously with Wilson, Johnson & Higgins and Davies & Mejia.

Courts Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

MACON, Ga.—Thomas L. Corn is now with Courts & Co., Bankers Insurance Building.

Joins Pierce, White

(Special to THE FINANCIAL CHRONICLE)

BANGOR, Maine — Laura A. Royce has been added to the staff of Pierce, White and Drummond, Inc., 6 State Street.

With Denton & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — George M. D'Arcy is now connected with Denton & Co., 16 Court Street.

With Jackson & Company

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Alan Marshall is now affiliated with Jackson & Company, Inc., 31 Milk Street.

Three With R. A. Harrison

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, Calif. — Robert V. Hagan, Frank R. Dole and Bernard A. Zink are now with Richard A. Harrison, 2200 Sixteenth Street.

With H. L. Robbins Co.

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass. — Charles W. Barton has become affiliated with H. L. Robbins & Co., Inc., 40 Pearl Street.

Raymond Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass—Allen Reid is with Raymond & Co., 148 State Street.

Continued from page 8

The Tax Picture and The Mining Industry

side of the United States and Russia totals only $152,000,000,000.

Our Federal tax load is also enormous. The President estimates our Federal tax revenue for the present fiscal year will be approximately $75,000,000,000, whereas in 1949 the total tax load of all other organized governments in the world, including Russia, was only $68,000,000,000.

These developments over the past few years in Federal spending, debt and tax matters have brought us many challenging problems that must be met straightforwardly if we are to build sufficient strength into our mining industry to support our industrial production adequately. In order to attract needed capital to the mining industry to carry out extensive, exploration and development work as well as plant expansion, it seems to me we must have some tax relief in the way of reduced tax exactions and more liberal tax exemptions for the mining industry. Laws unfavorable to the discovery and production of minerals should be removed without delay. Examples are:

(1) Excess profits tax.

(2) Limitations on the deductions of exploration expenses.

(3) Denial to stockholders of reasonable depletion allowances.

(4) Excessive taxation of so-called Capital Gains and the confiscation of capital.

(5) Denial of adequate depreciation.

(6) Unbearable burdens upon the prospector and the small operator.

(7) Constant onslaughts of the Treasury on percentage depletion.

Consideration should be given also to various proposals made by the National Minerals Advisory Council such as a three-year tax exemption for new mines and a depletion allowance to stockholders. Also depletion and depreciation in excess of the amount properly allowable should not be required to be deducted from the basis of property unless a tax benefit results from the excessive deduction.

It is my belief that Congress today is more aware of the need for building a healthy and vigorous mining industry than Congress has been heretofore, but that Congress has not yet fully realized the need for speed in attaining that objective and for maintaining our mining industry at a constant high level of production at all times.

We are fortunate, indeed, in having with us today the members of this panel, each of whom has established an outstanding record in connection with our Federal tax policies and the special problems that confront the mining industry of America in meeting the full responsibility that our national welfare places upon it in this war-torn world.

Joins Davies & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, Calif.—William H. Pabst has become affiliated with Davies & Co., 39 North First Street. He was formerly with First California Company.

With First California

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—John B. Crosman has joined the staff of First California Company Incorporated, 300 Montgomery Street, members of the San Francisco Stock Exchange.

Our Reporter's Report

The cloud of uncertainty generated by the erratic behavior of the Treasury list continues to hover above the investment market. Underwriters and dealers alike are more than a bit befuddled, the more so since the big housing issue made its appearance last week and on a yield basis that evidently called for further readjustment in the position of outstanding issues, governments, as well as municipals.

The municipal market naturally was the most affected, but reportedly there was some selling of governments with funds derived going into the housing loan. There was a feeling in most quarters that perhaps the reaction in Treasurys had been carried too far, but it was not until early this week that any distinct rallying tendencies developed.

And then it came in the wake of naturally unconfirmed reports that the Federal was letting it be known that it was interested in halting the downward movement. Whether or not it did any buying of consequence could not be ascertained, but the whisper of its views appeared sufficient to turn the market which gave evidence of being decidedly thin either way.

Through it all the corporate market has been giving a fairly good account of itself. But this, too, could be credited to the absence of any will to sell rather than the appearance of much in the way of really active demand.

In the "Catbird" Seat

Large institutional investors still are disposed to play hard to get as far as new issues are concerned. They just refuse to be rushed into any picture and from conjecture around there is no immediate reason why they should.

Big insurance companies and banks make it plain that they still have ample outlets for their funds through the medium of direct bond purchases and the mortgage market. In both these directions, it is indicated that their funds are earmarked in good volume and well ahead.

But this does not mean that such potential buyers could not scrape together the wherewithal to take on their share of new public offerings, if and when, the latter are in line with their ideas. But their attitude leaves the market "very, very touchy" as one observer remarked.

Washington Water Power

Washington Water Power Co. awarded its $30,000,000 of new 30-year first mortgage bonds on a top bid of 101.22 for 3½s, but other bids received, all for a 3⅝% coupon, indicated this represented a "cover" of around 1¾ points.

Apparently this consideration, working out to the equivalent of about 10 basis points in yield, tended to put a drag on the issue which was priced for reoffering at 101.871 for a yield of 3.40%.

Some dealers felt they had a bit of a selling job on their hands and were hoping that the general market would help out by developing an improved tone.

Next Week's Large Ones

The market is assured of at least two big new offerings in the week ahead, one being the $60,000,000 of 19-year debentures to be floated for the International Bank for Reconstruction and Development, now set for Thursday.

Two days earlier, on Tuesday, the United Gas Corp. will open bids for $60,000,000 of 20-year sinking fund debentures. At least three large groups have been organized to submit bids for this one.

The week will be opened on Monday by Associated Telephone's offering of $10,000,000 of new 30-year first mortgage bonds, with three bids now expected to be submitted.

Associates Investment Offer Oversubscribed

A group of 47 underwriters headed by Goldman, Sachs & Co., and Merrill Lynch, Pierce, Fenner & Beane offered publicly yesterday (Oct. 1) $30,000,000 of Associates Investment Co. 3⅜% debentures due Sept. 1, 1962 at 99% and accrued interest. The offering was oversubscribed and the books closed.

The company, which is the fourth largest automobile sale finance company in the United States, plans to add the proceeds from the financing to the general funds of the company and to apply such funds initially to the reduction of short-term notes payable.

The debentures will be entitled to a sinking fund providing for the retirement of 10% of the debentures on March 1 of each of the years 1958 through 1962 and the company may retire up to an additional 10% under the sinking fund on March 1 of each year beginning 1954. The debentures are redeemable otherwise than through operation of the sinking fund at prices scaled from 101% initially to 100% on and after Sept. 1, 1957. If redeemed by operation of the sinking fund the redemption price is 100%.

Three With J. G. Kinnard

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn. — William D. Hanney, Leo E. Mauren, and Harry F. Schoenberger have become affiliated with John G. Kinnard & Company, 71 Baker Arcade.

Two With Goodbody Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Wright N. G. Bell and Aurelian F. Wigle are now with Goodbody & Co., Penobscot Building. Mr. Wigle was previously with Paine, Weber, Jackson & Curtis.

Halsey, Stuart Group Offers Equip. Tr. Ctfs.

Halsey, Stuart & Co. Inc. and associates are offering, subject to authorization by the Interstate Commerce Commission, $5,250,000 Chesapeake & Ohio Ry. 3¼% serial equipment trust certificates, fifth equipment trust of 1952, to be dated Oct. 15, 1952 and to mature semi-annually April 15, 1953-Oct. 15, 1967, inclusive. The certificates are priced to yield from 2.15% to 3.25%, according to maturity.

The certificates are to be issued under the Philadelphia Plan and will be secured by new standard-gauge railroad equipment estimated to cost $6,639,042. The equipment comprises 23 diesel electric locomotives and 420 hopper cars.

Associated in the offering are: R. W. Pressprich & Co.; L. F. Rothschild & Co.; Baxter, Williams & Co.; Freeman & Co.; Gregory & Son Inc.; Ira Haupt & Co.; Hayden, Miller & Co.; The Illinois Co.; Wm. E. Pollock & Co. Inc.; First of Michigan Corp.; McCormick & Co.; McMaster Hutchinson & Co.; and Mullaney, Wells & Co.

Edward E. Mathews Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Edward J. Elliott is now with Edward E. Mathews Co., 53 State Street.

With Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass — Samuel T. Arnold, Jr. is now associated with Paine, Webber, Jackson & Curtis, 24 Federal Street.

Joins Vance, Sanders

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—John H. Wall, Jr. has become affiliated with Vance, Sanders & Company 111 Devonshire Street.

Joins Baker, Simonds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Rheo C. Marchand has become connected with Baker, Simonds & Co., Buhl Building members of the Detroit Stock Exchange.

Am. Metallic Chemicals Common Stock Offered

Public offering of 450,000 shares of common stock of American Metallic Chemicals Corp. is being made today (Oct. 2) by Dobbs & Co. and M. S. Gerber, Inc. The stock is priced at $3 per share.

Approximately one-half of the net proceeds from the sale will be used to alter and equip a plant which the company plans to lease for the electrolytic manufacture of sodium perborate, a product used in numerous industrial fields. The plant adjoins the company's present plant located in Portland, Ore., in which electrolytic manganese dioxide is produced. The balance of the proceeds will be used for the installation of additional equipment in the present plant to double production capacity of electrolytic manganese dioxide, and for working capital.

The process to be used by the company for the production of sodium perborate will be based upon a license from Noury & Van der Lande N.V. (of Holland), one of Europe's best known chemical companies whose business was founded in 1838.

With H. H. Butterfield

(Special to THE FINANCIAL CHRONICLE)

JACKSON, Mich.—Roy McPhail has joined the staff of H. H. Butterfield & Co., Jackson City Bank & Trust Co. Building.

Irving J. Rice Adds

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, Minn. — James A Miller has been added to the staff of Irving J. Rice & Co., First National Bank Building.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — Five million female votes for Nixon and Eisenhower. Five million who wouldn't have voted. A net gain of 5,000,000 votes for the GOP ticket.

This, tentatively, is one of the reasons why GOP workers are happy over the Nixon affair; why they believe that since the issue of the private campaign fund of $18,000 was raised by persons friendly to Stevenson, the thing is a net gain for the GOP ticket.

Ordinarily the crowd doesn't pay very much attention to a Vice-Presidential candidate. He is in the background. Nixon was a nice-looking nobody until his famous TV appearance defending himself.

Senator Nixon displayed a superb politician artisan's capacity to take advantage of the drama and the audience his "defense" mobilized for him. The response from the female population wiring the GOP national committee to keep Nixon on, was enormous. Now millions of women are convinced that Nixon is a nice boy, a good looking boy, and a sincere man. And his wife wasn't made up or dressed up to look good enough to arouse any covert jealousy from the listening female population.

Of course not all those women charmed by the Senator's defense will continue their enthusiasm, but the broadcast did call attention of the female voters to the form, figure, and speech of Richard Nixon.

It is admitted that as time rolls on it could be expected that "holes" could be punched in the Senator's defense, but this is washed out at least by the Senator's turning on Stevenson for the latter's own private political funds.

Sawyer Partially Checkmated

Breaths were almost knocked out of observers by the speed with which President Truman moved to checkmate, at least partially, Commerce Secretary Sawyer's plans to bring business thinking and the Commerce Department into planning for the "full employment" which might be threatened by a reaching of a peak in defense production and the tapering off of business capital investment.

This move of Sawyer's was reported in this column last week (Sept. 25). Sawyer hoped to get up a report before he left the government, on how to solve full employment, and also meant to reorganize the Commerce Department into planning the full employment.

Such a design, of course, ran square into the fact that the "full employment" planning is now geographically close to the White House itself, through the Council of Economic Advisers.

Now Mr. Sawyer, it develops, must go to Europe to study European conditions before working out his little scheme. This will take most or all of November. Mr. Sawyer has said, "Aye aye, Sir," to the President's order, and said he will go to Europe

This will leave the Commerce Secretary scarcely a month to get up a report on how to promote full employment, and also to reorganize the Commerce Department so as to set up the production and distribution division to map out and operate the full employment. To achieve these twin objectives in a month, even if Truman still leaves Sawyer a free month, will take some doing.

There was considerable surprise that Mr. Truman hinted that Henry H. Fowler, the new Director of the Office of Defense Mobilization, should also accompany Mr. Sawyer and thus get himself out of the country for a month. Fowler is the man who insists upon taking seriously the ostensible Truman goal of building up quickly a military establishment that will be able to deter Russia from further aggression.

Lower Defense Goal

It is now being said in responsible circles that the total annual expenditures for "all security programs" may well fail to reach the officially-proclaimed goal of $65 billion annually. Actually, it was said, the total may full short of this target by as much as $5 billion when the peak is reached, under present planning.

Present planning, of course, is subject to possible change with a new Administration.

Incidentally, officials said that the $65 billion goal included "defense-supporting security expenditures" and not merely Department of Defense plus procurement for the foreign arms aid program, as this column reported. "Defense supporting" expenditures include a wide range of objects. Chief of these is atomic energy. Others are "defense housing," foreign economic aid, and kindred miscellaneous things.

Peak Rate to Last Year To 18 Months

While the peak rate may not go much if any above $60 billion, it is slated to continue at that rate for from 12 to 18 months, it was stated. This is taken to mean that the $60 billion annual rate will endure throughout the calendar year 1954 and into 1955, unless the new Administration of next year deliberately and purposefully cuts it back.

This rate is hinged upon present appropriations and authorizations. It takes into account the probability that the Department of Defense, as it has indicated, will ask for a lower fiscal 1954 level of new authorizations and appropriations than Congress made available at its session this year.

In other words, barring a deliberate slow-down by the new Administration, and counting upon a reduction in defense spending approvals by Congress, the fire in the appropriations boilers, unless dampened down, will continue peak spending throughout 1954. It will almost take an affirmative effort of some purpose by the new Congress and Administration to "taper off" defense spending after 1954.

Boxes FTC's Ears

A trade association executive has boxed the ears, figuratively speaking, of the Federal Trade Commission. Wrote Paul Hadlick, general counsel of the National Oil Marketers Association, in a letter to John Carson, a member of the FTC, in part as follows:

"The Federal Trade Commission was recommended by President Wilson as an 'indispensable instrument of information and publicity' as distinguished from the 'menace of legal process.'

"For the first 35 years of its existence the Commission has followed the latter instead of the former. Its staff has become over-impressed with its judicial and investigative powers and almost completely sidetracked the purpose for which it was established.

"Your Commission is always harping that it doesn't get sufficient funds. I'm surprised that Congress doesn't cut the Commission's throat entirely and forget the whole thing. You can never accomplish the purposes for which the Federal Trade Commission was established by mimicking the FBI or masquerading as judges. False whiskers were never prescribed for your employees nor black robes for the Commissioners."

Mr. Carson, while a sincere devotee of left causes, has no patience with FTC boondoggling, took Hadlick's bawling out in good from, said he was having the letter copied so it would be read by all members of the Commission and subordinate heads of Commission divisions.

If Anti-Commie Be 100% Honest

Inasmuch as the former Rep. Parnell Thomas, chairman of the Un-American Activities Committee, was jailed on a charge of taking a salary "kick-back" from one of his office staff, and Senator Nixon was "exposed" for his private campaign fund — while curiously enough left-wingers in Congress seem to escape much publicity of their private doings, it is being said in Washington:

"If you are a notorious opponent of Communists in government, be sure that your private and official life is one of unexempled rectitude."

Tighe Kaputs Decontrol

Representatives of the National Retail Dry Goods Association approached the new Price Controller, Tighe Woods, on the prospect of decontrolling completely Ceiling Price Reg. 7, which governs the retail dry goods industry.

This industry is one in which almost universally, goods are selling under ceilings, merchandising costs are rising, and price control is without point or cogency.

Mr. Woods objected. He was not going to do any "wholesale" price decontrolling.

Instead, he admitted that prices overall were way below ceilings. Instead, you Mr. Retail Dry Goods Industry, should advertise that selling prices are below ceiling. Should Tighe Woods take legal cognizance of this situation?

"No, never."

Broad decontrol, said Mr. Woods, would complicate "wage control." Mr. Woods did not explain what "wage control" was.

Mr. Woods is a man, he said, who believes the government should never control anything it hasn't any necessity for controlling. For instance, Mr. Woods said how rents were decontrolled locally when he was rents controller (technically, "Housing Expediter").

What Mr. Woods didn't point out was that local decontrol of rents was enacted by Congress over his violent objection.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"Bajoosky really Kwispy Wispied that ball!—it's going —going—gone for a case of Kwispy Wispys!—he's crossing home plate now with that Kwispy Wispys smile!—what a great Kwispy Wispy ball game this is! ——and now for a word about Kwispy Wispys—"

Business Man's Bookshelf

Changing Patterns of Executive Compensation—Survey—Booz, Allen & Hamilton, 285 Madison Avenue, New York 17, N. Y.

Cooperatives Look Ahead, The—Jerry Voorhis — Public Affairs Committee, Inc., 22 East 38th Street, New York 16, N. Y.—Paper —25c.

What Does Freedom Mean to You?—Russell J. Clincy—Foundation for Economic Education, Inc., Irving-on-Hudson, N. Y.—Paper—No charge for single copies; quantity prices on request.

J. F. Reilly Wire to Livingstone, Crouse

J. F. Reilly & Co., Incorporated, 61 Broadway, New York City, announce the installation of a direct private wire to S. R. Livingstone, Crouse & Co., Detroit, Mich., members of the Detroit Stock Exchange.

J. A. Warner Wire to White, Noble, Detroit

J. Arthur Warner & Co., Incorporated, 120 Broadway, New York City, announce the opening of a direct private trading wire to White, Noble & Company, Detroit, Mich., members of the Detroit and Midwest Stock Exchanges.

Kuhn, Loeb Places Jarrell-Ash Notes

Jarrell-Ash Co., (Boston, Mass.), manufacturers and distributors of scientific laboratory instruments, has placed privately with a small group of investors $200,000 ten-year convertible notes, it was announced yesterday by Richard F. Jarrell, President. Proceeds from the sale of the notes will be used for repayment of bank loans and further expansion.

The financing was arranged through Kuhn, Loeb & Co. Henry Necarsulmer and John S. Guest, who are associated with Kuhn, Loeb & Co., have been elected directors of Jarrell-Ash Co.